



Performance and Annual Report

Fiscal Year 2003



U.S. Customs and
Border Protection



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This Performance and Annual Report covers Federal Fiscal Year (FY) 2003 (October 1, 2002, through September 30, 2003) with discussion of some subsequent events. It is prepared to meet the objectives of the Reports Consolidation Act of 2000. The purpose of the Act is to streamline and consolidate statutory financial management and performance reporting requirements into a single report.

This report highlights Customs and Border Protection's major initiatives, performance goals, and mission accomplishments, and presents related financial management information that represents an on-going effort to provide useful information to internal and external customers. The figures shown for FY 2003 program operations and performance measures in the Management Discussion and Analysis Section of the report are those that were available as of October 31, 2003. This was a transition year for the agency, with five months under the Department of the Treasury (Treasury) and seven months under the new Department of Homeland Security (DHS). The financial statements presented here provide the financial position and results of legacy Customs operations through both periods, and are prepared pursuant to the requirements of 31 U.S.C. The budget resource obligations also refer to legacy Customs operations during the 12-month period. Many of the performance measures discussed were originally used by legacy Customs.

The measures have been adjusted to reflect a continuation of operations under the DHS, and have been modified accordingly. For example, data referring to narcotics seizures are seizures accounted for by CBP's Office of Field Operations and are not comparable to the legacy Customs data. Since this is a transition year, the report also includes information on the roles of the Border Patrol, staff from the Animal and Plant Health Inspection Service (APHIS) of the Department of Agriculture (USDA), and the U.S. Immigration and Naturalization Service (INS) staff that have become part of CBP during FY 2003. Some summary performance data on activity performed by these new staff has also been included.

While the statements have been prepared from U.S. Customs and CBP books and records in accordance with the formats prescribed by the Office of Management and Budget (OMB), the statements are supplemental to the financial reports used to monitor and control budgetary resources prepared from the same books and records.

Information about CBP programs is available through the Internet on the CBP Home Page at <http://www.CBP.gov>. The CBP Home Page is updated on an ongoing basis.

Photos by Gerald Nino and James Tourtellotte

Message from the Commissioner

This inaugural year for U.S. Customs and Border Protection has been one of both great transition and tremendous progress. On March 1, 2003, we took almost all of the U.S. Customs Service and merged it with all of the immigration inspectors from the former Immigration and Naturalization Service, the agricultural border inspectors from the Department of Agriculture's Animal and Plant Health Inspection Service, and the entire Border Patrol. The resulting 38,700-strong Bureau of Customs and Border Protection (CBP) created, for the first time, a single federal agency entrusted with all significant U.S. border responsibilities. We are creating what Secretary Ridge has called "one face at the border," one agency to manage, secure, and protect our Nation's borders.

As an integral part of the Department of Homeland Security, CBP's priority mission is detecting and preventing terrorists and terrorist weapons from entering the United States. Accordingly, CBP has developed and deployed a number of initiatives to accomplish its priority mission – without impeding legitimate travel and trade. These initiatives are designed both to increase the security at our borders as well as to push our nation's zone of security outward, so that U.S. borders are our last line of defense rather than our first.

These initiatives include:

- Establishing "one face at the border" by creating and training a new cadre of "CBP Officers" to enforce U.S. laws, and conduct immigration, agricultural, customs, and anti-terrorism inspections at our Nation's ports of entry in both the passenger and cargo environments. CBP officers are being augmented by CBP Agricultural Specialists;
- Staffing increases and technological improvements along our borders, including improved automation and detection equipment and enhanced training as well as refined targeting to detect and interdict potential terrorists, terrorist weapons, and other harmful cargo and contraband;
- Implementing a variety of programs to both protect and facilitate trade and travel on our land borders, including NEXUS and FAST, which speed the cross-border movement of trusted and vetted travelers and cargo;
- Working with private industry to expand participation in the Customs-Trade Partnership Against Terrorism (C-TPAT), in which over 4,600 companies now participate, in order to dramatically improve supply chain security for goods destined for the U.S.;
- Pushing our zone of security outward through joint initiatives with foreign governments such as the Container Security Initiative (CSI), which allows CBP to identify and pre-screen cargo containers before they are loaded onto vessels destined for the U.S. In 2003, CSI became operational at 17 major foreign seaports, with more on the way.

Meanwhile, CBP has also kept focused on its traditional mission of enforcing at our borders all laws of the United States, including trade, agriculture, and immigration laws. This mission includes seizing illegal drugs and other contraband, determining the admissibility of people and goods, apprehending people who attempt to enter the U.S. illegally, protecting our agricultural interests from harmful pests and diseases, collecting duties and fees, and regulating and facilitating international trade. This year, CBP officers apprehended 932,000 illegal entrants into the U.S., seized 2.3 million pounds of illicit narcotics (the Border Patrol seized 1.37 million and field operations staff .95 million), and collected \$20.3 billion in duties.

CBP personnel have continued to demonstrate their remarkable ability to evolve to meet our Nation's needs – unifying our agency while maintaining their professionalism, excellence, and focus on CBP's priority homeland security mission.



A handwritten signature in dark ink that reads "Robert C. Bonner". The signature is written in a cursive, slightly stylized font.

Robert C. Bonner

Message from the Chief Financial Officer

On March 1, 2003, the former U.S. Customs Service became the U.S. Customs and Border Protection (CBP) under the newly created Department of Homeland Security (DHS). Since that date most of our time and efforts have been dedicated to ensuring a smooth transition of financial and asset management functions from the legacy Customs to the new CBP.

This Fiscal Year 2003 Annual Report provides an opportunity for the CBP to detail the actions taken over the last year in meeting the many challenges associated with standing up a new, consolidated border protection agency and continuing to solidify its key role in securing the Nation's borders while facilitating the free flow of trade. The report also affords the Office of Finance the opportunity to elaborate on actions taken to improve financial management performance and enhance the daily support we provide to the operational elements of CBP, as well as to review areas where improvement can be made in our operations. For FY 2003, CBP financial statements were audited as part of the comprehensive financial statements audit conducted for the Department of Homeland Security. And, as part of the task of readying CBP financial statements for audit, we successfully integrated and converted the financial account structures of Customs and the other legacy agencies into one set of CBP financial statements.

One of the first tasks confronting the establishment of CBP was the development of its new budget. In this regard, the Office of Finance was instrumental in providing guidance and leadership for the resolution of difficult issues surrounding the development of the budget request and subsequent appropriation for FY 2004. In addition, we led CBP's efforts to obtain \$333 million in FY 2003 supplemental funds to ensure that CBP would be able to protect our borders from increased threats resulting from Operation Liberty Shield. The Office of Finance also provided leadership to ensure that legacy Customs/CBP financial functions and systems were ready for the March 2003 transition to CBP and the October transition to DHS, thus ensuring continuity of operations.

In addition to ensuring a smooth conversion, the Office of Finance has actively supported the development of shared service agreements within the Department of Homeland Security. These arrangements will enable DHS to capitalize on mission support best practices among the bureaus, ultimately resulting in cost savings for the government.

Under this initiative, CBP will be the shared service provider of printing and graphics, fleet management, and facilities construction and leasing for certain bureaus within the Border and Transportation Directorate.



The Office of Finance took the lead in a number of other areas, including leading the effort to extend the Consolidated Omnibus Budget Reconciliation Act (COBRA) legislation and raising the visibility of the need for revision of the COBRA fees to cover the full cost of services provided by CBP. We provided leadership for the evolution of plans to ensure adequate resources for continuing the development of Automated Commercial Environment (ACE)/Modernization initiatives with DHS and OMB, which resulted in congressional approval of ACE expenditure plans. Along with that, we continued to obtain funding for and pursue the development and implementation of SAP as our new financial system. We also carried on our efforts to ensure successful integration of SAP as the platform for ACE. Once fully implemented, SAP and ACE will enable CBP to resolve multiple, long-standing material weaknesses reported under the Federal Managers' Financial Integrity Act.

Finally, so that we may continue to optimize our operations, we stepped up efforts to improve the internal staffing and management of the Office of Finance with the filling of key vacancies, the beginning of succession planning, and the augmentation of staff with college co-op students and Presidential Management Interns.

Working together with our internal and external partners, we look forward to Fiscal Year 2004 with enthusiasm and energy, and we renew our dedication to support CBP's new role in the nation with pride, integrity, honor, and commitment.

John E. Eichelberger



Training exercise for the first CBP officer training class at the Federal Law Enforcement Training Center.

Customs and Border Protection Overview

Overview - A Year of Transition

Following the creation of DHS, the Administration established CBP within the Department's Border and Transportation Security Directorate. CBP is the result of a merger of most of legacy U.S. Customs (Customs) with all of the immigration inspectors and Border Patrol from the former INS, plus the agriculture border inspectors from the USDA's APHIS. The 38,700 new members of CBP combine both their various skills and experience with their shared values of integrity, accountability, fairness, service, and pride – creating a new whole greater than the sum of its previous parts. These dedicated professionals have quickly come together as one team to focus on CBP's critical mission: protecting United States (U.S.) citizens by securing our Nation's borders. To achieve this mission, CBP is developing and implementing a comprehensive strategy for security and enforcement of all U.S. laws at our borders – without stifling the flow of legitimate trade and travel.

Major CBP Accomplishments in the Year of Transition

Despite the challenges of integrating more than 38,000 people into a new agency, CBP never lost focus on its primary mission of ensuring homeland security by protecting U.S. borders, along with its traditional missions including seizing illegal drugs and other contraband, apprehending people who attempt to enter the U.S. illegally, protecting our agricultural interests from harmful pests and diseases, collecting duties, and enforcing our trade and immigration laws at our borders. CBP's many successes in accomplishing these missions include:

- Creating "One Face At The Border" by training former Customs, INS, and Agriculture inspectors as new CBP Officers, wearing one uniform and equipped and trained to handle all CBP primary and secondary inspections, for all purposes in the passenger environment;
- Increasing staffing along our borders while establishing a single, unified chain of command for all CBP components; providing anti-terrorism training, including Counter-Terrorism Response Procedures, to all field elements – Border Patrol agents as well as former immigration, agriculture, and customs inspectors;
- Establishing unified primary inspections at six ports of entry (POEs) for immigration, agricultural inspection, and customs functions, with plans for an additional 44 ports underway;
- Developing and deploying new technologies to improve border security, such as large-scale x-ray machines to examine arriving vehicles and cargo and sophisticated sensors to detect and stop illegal crossings between POEs;
- Through partnerships with private industry and with other nations, developing and improving programs to create "smart borders" that improve security and facilitate trade, including Custom Trade Partnership Against Terrorism (C-TPAT), the Free and Secure Trade (FAST) Program, and the Container Security Initiative (CSI);
- Continuing to integrate the automated risk management capabilities of the National Targeting Center (NTC) with frontline border agents and improving CBP's ability to detect and prevent terrorists and terrorist weapons from entering the country.

“On March 1, we all reported as members of one team.
The new team is the DHS. Same team, same fight, same enemy.”

– DHS Secretary Tom Ridge

CBP Mission Statement

We are the guardians of our Nation’s borders.
We are America’s frontline.
We safeguard the American homeland at and beyond our borders.
We protect the American public against terrorists and the instruments of terror.
We steadfastly enforce the laws of the United States while fostering our Nation’s economic security through lawful international trade and travel.
We serve the American public with vigilance, integrity, and professionalism.

CBP Core Values:

Vigilance: Vigilance is how we ensure the safety of all Americans. We are continuously watchful and alert to deter, detect, and prevent threats to our nation. We demonstrate courage and valor in the protection of our nation.

Service to Country: Service to country is embodied in the work we do. We are dedicated to defending and upholding the Constitution of the United States. The American people have entrusted us to protect the homeland and defend liberty.

Integrity: Integrity is our cornerstone. We are guided by the highest ethical and moral principles. Our actions bring honor to ourselves and our agency.

The Creation of CBP

CBP has a workforce of 38,700 dedicated employees. Included in those ranks are inspectors, canine enforcement officers, Border Patrol agents, trade specialists, and mission support staff. For the first time in our Nation’s history, people and goods arriving at American POEs are greeted by one single agency. CBP became an official agency of DHS on March 1, 2003, combining employees from USDA, INS, the Border Patrol, and Customs. Unifying the border agencies—a good government reform advocated by many studies over the past 30 years—will improve the way the U.S. Government manages U.S. borders. We are combining our skills and resources to make sure that we will be far more effective and efficient than we were when border responsibilities were fragmented in three different departments of government.

Priority Mission

Homeland security is CBP’s priority mission. Most importantly, that means preventing terrorists and terrorist weapons from entering the U.S. This important mission calls for improved security at America’s borders and POEs as well as for extending our zone of security beyond our physical borders – so that American borders are not the first line of defense. The terrorist threat is a very real, continuing danger that will be with us for years to come, and our nation must continue to act accordingly to combat that threat and defend the American people against it. CBP’s plan for the FY 2004 – FY 2009 time period reflects a continued focus on the priority homeland security mission.

Vital Statistics:

38,700 CBP employees
317 ports of entry
26.1 million trade entries
\$25 billion collected
.947 million pounds of narcotics seized or assisted in seizing by Field Operations staff
(plus 1.37 million pounds seized by Border Patrol staff)
412.8 million pedestrians and passengers processed
132.2 million conveyances processed



Fingerprinting is an important tool for the future in combating terrorism.

Traditional Mission

CBP also continues to perform its traditional missions. These include apprehending individuals attempting to enter the U.S. illegally; stemming the flow of illegal drugs and other contraband; protecting our agricultural and economic interests from harmful pests and diseases; protecting American businesses from theft of their intellectual property; regulating and facilitating international trade; collecting import duties; and enforcing U.S. trade laws.

Twin Goals

CBP carries out its primary homeland security mission and its traditional missions without choking off the flow of legitimate trade and travel so important to our Nation's economy. We must protect American lives, but we must also protect American livelihoods. Accordingly, CBP maintains two overarching goals: (1) increasing security and (2) facilitating legitimate trade and travel. We have learned that by using advance information, risk management, and technology, and by partnering with other nations and private industry, these goals need not be mutually exclusive.

FY 2003 Priorities

During FY 2003, the Commissioner established a set of priorities for the transition to DHS as follows:

1. Completing "one face at the border," the unification of all U.S. border agencies into CBP, that is, the merger of all customs, immigration, and agriculture inspections at the 317 POEs, together with the Border Patrol, to form one seamless U.S. border agency within DHS. Prior to March 1, 2003, these border functions resided in three different departments of our government. On March 1, 2003, as a result of the establishment of DHS, we began to integrate these former agencies into one, establishing "one face at the border."
2. Establishing a "CBP officer" position and unified primary inspection for all purposes, including immigration, customs, and agriculture, at all POEs into the U.S., at all land border crossings, international airports, and seaports.
3. Completing the implementation of CSI at the top 20 foreign ports (Phase I), and expanding CSI to cover 80 percent of all cargo containers shipped to the U.S. (Phase II).
4. Devising and implementing a comprehensive strategy to improve security and control of U.S. borders, both at and between POEs, using detection technologies and rapid response capabilities.
5. Increasing the Border Patrol presence at the Northern Border (NB) to 1,000 agents.
6. Implementing critical action items of the Smart Border Accords with Canada and Mexico, including expansion of FAST and NEXUS.
7. Consolidating anti-terrorism secondary inspections, thereby adding value by marshalling the combined expertise and legal authorities of immigration and customs inspections in secondary inspections to improve CBP's ability to carry out its priority mission: keeping terrorists and terrorist weapons out.
8. Utilizing the capabilities of the NTC and the Automated Targeting System (ATS) to improve targeting of potential terrorists and terrorist weapons, as well as other high-risk passengers and cargo, in all border environments through enhanced information collection and analysis.

9. Implementing CBP's comprehensive strategy to address the threat of nuclear and radiological terrorism.
10. Rolling out the second and third release of ACE to begin a paperless relationship with the trade community. Improving risk targeting of goods imported into the U.S. through ACE.
11. Validating implementation of supply chain security enhancements undertaken by members of the C-TPAT. Expanding C-TPAT to foreign manufacturers and shippers and introducing the smart container into the supply chain.

Draft Strategic Goals for Future Years

Based on the Commissioner's priorities, a draft statement of CBP's strategic goals for future years was formulated. Following the guidance of the Government Performance and Results Act (GPRA), the strategic goals, once formally approved, will serve as the organizing principle for describing agency performance in CBP's Performance and Annual Report. In the transition year of FY 2003, the six draft strategic goals have been used to organize the description of CBP's performance and its progress toward achieving the Commissioner's priorities. The six draft strategic goals are:

1. Preventing Terrorism

Our first strategic goal reflects CBP's priority mission, the homeland security mission. The goal is to protect our homeland from acts of terrorism and reduce its vulnerability to the threat of international terrorists. In short, CBP's priority mission is to prevent terrorists and terrorist weapons from entering the U.S.

2. Balancing Legitimate Trade and Travel with Security

This strategic goal involves moving legitimate cargo and people efficiently while safeguarding the border and the security of the U.S. We can accomplish our security and facilitation goals through refining targeting by improving the collection and use of advance data regarding incoming people, conveyances and goods, and by using technology to leverage our resources, including modernizing automated processing systems. CBP will also promote government partnerships that permit screening of cargo and people beyond our borders.



CBP inspector with canine examining incoming merchandise.

3. One Face at the Border

To become more effective and efficient in accomplishing our priority mission, we will achieve "one face at the border." By integrating all of the federal inspection elements at the POEs and unifying them with the Border Patrol, we will form a seamless U.S. border agency within DHS. As part of this effort, we will create an agency-wide law enforcement and national security culture, establish a CBP officer position and unified primary inspection at all U.S. ports-of-entry, and conduct specialized secondary inspections focused on preventing terrorism.

4. Strengthening Our Control of the U.S. Border

This goal is to strengthen national security at and between the POEs by implementing a comprehensive border enforcement strategy, expanding, integrating, and coordinating the use of technology and communications, and improving cooperation among CBP personnel securing areas between the POEs.

5. Protecting America and its Citizens

The fifth strategic goal is to contribute to a safer America by prohibiting the introduction of illicit narcotics and other contraband into the U.S.

6. Modernizing and Managing

Of course, none of the Commissioner's priorities can be accomplished without building a strong and effective management support structure that assures the achievement of "business" results including effective financial systems, enhanced information flow, continued roll out of ACE, and use of integrated and advanced technologies.

Organization

The consolidation of much of Customs, the Border Patrol, and the inspectional functions of INS and APHIS into a new parent organization is an extraordinary testament to the commitment of our country and of the individuals who made up these organizations to winning the war against terrorism.

Born in very different circumstances, trained to pursue diverse missions, and bound to strong and separate traditions, these organizations are now working aggressively to share their experience and expertise with one another and to build a new history of cooperation and accomplishment. CBP represents the first unification of federal agencies with primary responsibility for border enforcement, protection, and inspection, and CBP employees are demonstrating their resolve to present “one face” at the border in one, shoulder-to-shoulder fight against terrorism.

Headquarters

Office of the Commissioner

Robert C. Bonner was nominated by President George W. Bush to serve as Commissioner of Customs on June 24, 2001. Following Senate confirmation, he was sworn in as the 17th Commissioner of Customs on September 24, 2001. On March 1, 2003, he became the first Commissioner of CBP, responsible for all aspects of that bureau’s operations.

The Deputy Commissioner

Douglas M. Browning has served as Deputy Commissioner since May 3, 2002, and reports directly to the Commissioner of CBP. The Deputy Commissioner is responsible for providing leadership and direction to CBP’s day-to-day operations.

Component Organizations and Field Structure

CBP is organized into 18 separate offices. Six of these offices are the Commissioner’s Staff Offices, which are responsible for issues falling under the Commissioner’s direct operational control and which report directly to the Commissioner. Each of the Commissioner’s Staff Offices is described briefly below. Additionally, 12 offices are headed by Assistant Commissioners of CBP and the Chief of the Border Patrol. These include CBP’s two largest offices – the OFO and the Border Patrol – and are also described briefly below.

Commissioner’s Staff Offices:

Office of Anti-Terrorism (OAT): Serves as the principal advisor to the Commissioner and other senior officials on CBP’s anti-terrorism programs. Monitors, coordinates, and assesses all policy, programs, and matters relating to terrorism in order to ensure that CBP is maximizing its anti-terrorism



Secretary Ridge announces One Face at the Border Initiative.

efforts with regard to its border security mission, and within the federal law enforcement community, national intelligence community, and homeland security structure.

Office of Chief Counsel: Serves as the principal legal advisor to the Commissioner and the officers and employees of the CBP, and serves as the Ethics Officer.

Office of Equal Employment Opportunity (EEO) - Special Assistant to the Commissioner: Ensures compliance with civil rights statutes and regulations governing federal employment.

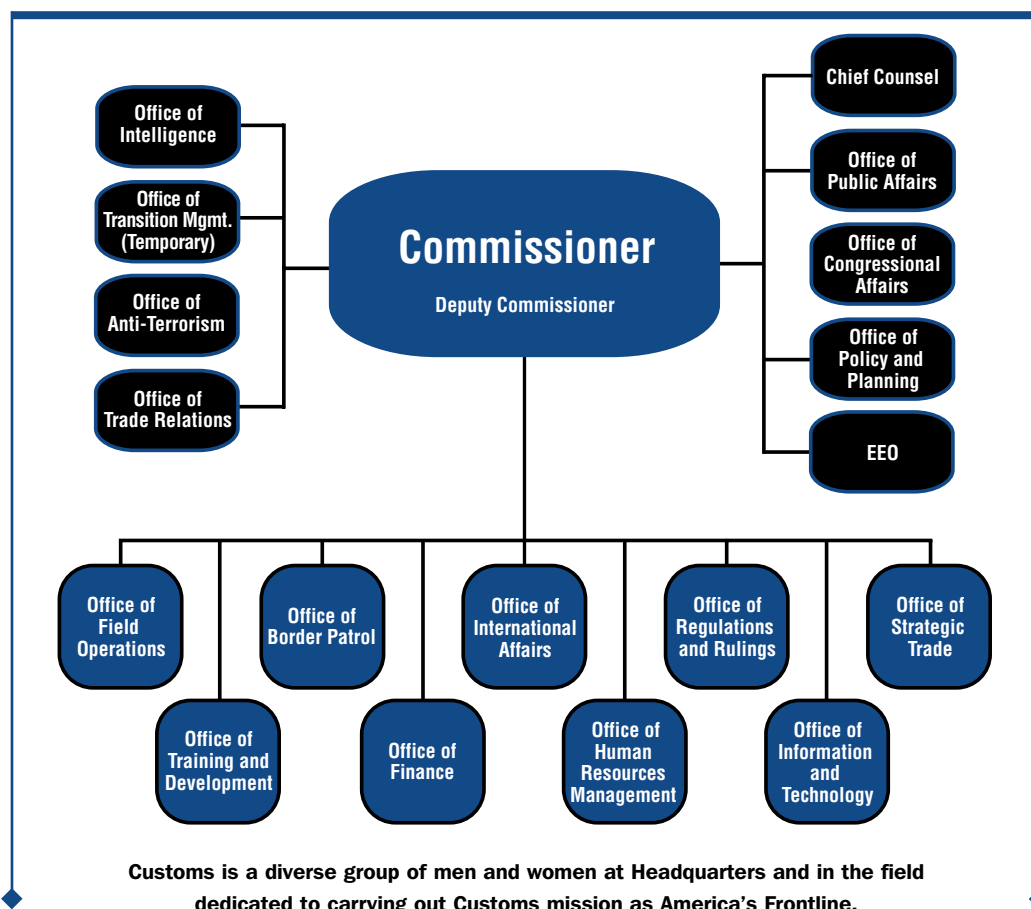
Office of Intelligence (OINT): Advises the Commissioner on intelligence matters. Responsible for disseminating all-source intelligence on border security issues to CBP personnel in direct support of their interdiction mission.

Office of Policy and Planning: Provides leadership to CBP’s overall strategic and tactical planning, performance measurement, and audit evaluation processes.

Office of Trade Relations (OTR): Fosters positive relationships with the trade community by serving as the liaison between industry and CBP.

Assistant Commissioners’ Offices:

Office of Field Operations (OFO): Oversees over 25,000 employees at 20 field operations offices, 317 POEs, and 14 pre-clearance stations in Canada and the Caribbean which are responsible for enforcing customs, immigration, and agriculture laws and regulations at U.S. borders. Each field operations office is run by a Director of Field Operations (DFO). Port Directors oversee POEs in their operational areas, where virtually all conveyances, passengers and goods legally enter and exit the U.S. OFO oversees the enforcement of laws and regulations while ensuring the safe and efficient flow of goods and people through POEs with two main programs –



Border Security and Facilitation, and Trade Compliance and Facilitation. Border Security and Facilitation issues include Interdiction and Security, Passenger Operations, Targeting and Analysis, and Canine Enforcement. Trade Compliance and Facilitation focuses on Summary Operations, Trade Risk Management, Enforcement, and Seizures and Penalties. OFO also administers Agricultural Inspection Policy and Programs and Immigrations Policy and Programs, which develop and implement policies to better enforce laws and regulations at U.S. borders.

Office of Border Patrol: Responsible for preventing illegal entry of people and contraband into the U.S. between official POEs. Border Patrol's over 12,700 employees (including 11,120 sworn agents) defend more than 6,000 miles of U.S. land borders, and are divided among 21 sector offices that coordinate enforcement activities of agents based at 133 stations and 14 substations. The Office of Border Patrol is responsible for enforcing immigration laws and detecting, interdicting, and apprehending those who attempt to illegally enter or smuggle people or contraband across U.S. borders between official POEs. To accomplish its mission, the Border Patrol uses a variety of land, sea, and air assets. Border Patrol personnel utilize the latest technology such as infrared surveillance equipment, remote intrusion detection devices, and biometric identification systems.

Office of Congressional Affairs (OCA): Responsible for advising CBP managers on legislative and congressional matters, and for assisting members of Congress and their staffs in understanding current and proposed CBP programs.

Office of Finance (OF) and CFO: Responsible for administering the broad range of financial management activities delineated under the Chief Financial Officers Act (CFO) of 1990, including accounting, budgeting, procurement, and logistics.

Office of Human Resources Management (HRM): Responsible for human resources planning in support of the business process improvement efforts, personnel services, training, labor management relations, and worker safety.

Office of Information and Technology (OIT): Responsible for implementation and support of information technology, research and development functions, and automation and technological strategies for meeting mission-related needs. OIT personnel manage all computer and related resources, including all operational aspects of the Computer Security Program, establish requirements for computer interfaces between CBP and various trade groups and government agencies, and manage matters related to automated import processing and systems development.

Office of Internal Affairs (OIA): Responsible for ensuring compliance with all bureau-wide programs and policies related to corruption, misconduct, or mismanagement, for overseeing fact-finding on allegations of non-criminal misconduct by CBP employees, and for executing the physical security, integrity, and management inspections programs. OIA also screens potential CBP employees for suitability, educates employees concerning integrity responsibilities, evaluates the security of CBP facilities and sensitive information, and inspects CBP operations and processes for managerial effectiveness and compliance.

Office of International Affairs (INA): Responsible for managing international activities and programs and for conducting bilateral and multilateral discussions on behalf of CBP with other countries and international organizations. INA is an integral part in CBP's efforts to develop programs like the CSI that effectively push our zone of security out beyond U.S. borders. INA also oversees the negotiation and implementation of all international agreements and is responsible for all foreign training and technical assistance provided by CBP.

Office of Public Affairs (OPA): Responsible for supervising the national and international public communication process through its staff in the following areas: press, Internet, audiovisual, editorial and speech writing services, internal communication, and public information.

Office of Regulations and Rulings (ORR): Responsible for the development, implementation, and evaluation of bureau-wide programs, policies, and procedures pertaining to regulations and rulings issued by and affecting CBP. ORR has a major responsibility for providing compliance information to members of the trade community. It provides policy and technical support to CBP, the DHS, the Congress, other government agencies, and the importing public concerning CBP and the application of laws, regulations, and procedures administered by CBP. The office also issues rulings, legal determinations, and guidelines relating to: claims (including claims for liquidated damages); fines; penalties; forfeitures; classification and value of merchandise; carriers; drawback and bonds; entry; licensing; intellectual property rights (IPR); restricted merchandise; and disclosure law.

Office of Strategic Trade (OST): Responsible for identifying and confronting major trade issues facing the U.S. by innovative research and analysis and by the creation of an array of coordinated interventions. The office is also responsible for developing the strategies to assess the level of trade compliance, for publishing CBP compliance data to enable the trade to

initiate their own efforts to achieve compliance, and for providing leadership for developing and implementing an integrated trade enforcement program.

Office of Training and Development (OTD): Responsible for all CBP training programs and personnel engaged in training activities. OTD ensures that all training efforts support the CBP mission and strategic goals, meet the needs of a diverse and dispersed workforce, and contribute to measurable outcomes and results.

Challenges and Strategic Planning

CBP is currently facing a number of external global threats and challenges.

Impact of Globalization

Globalization means increased trade within a security conscious environment demanding rapid movement and release of cargo. New arrangements will be needed between shippers and vendors for collection and sharing of information, and the trade community will need to assure that its processes are secure.

Preventing Terrorism and Crime

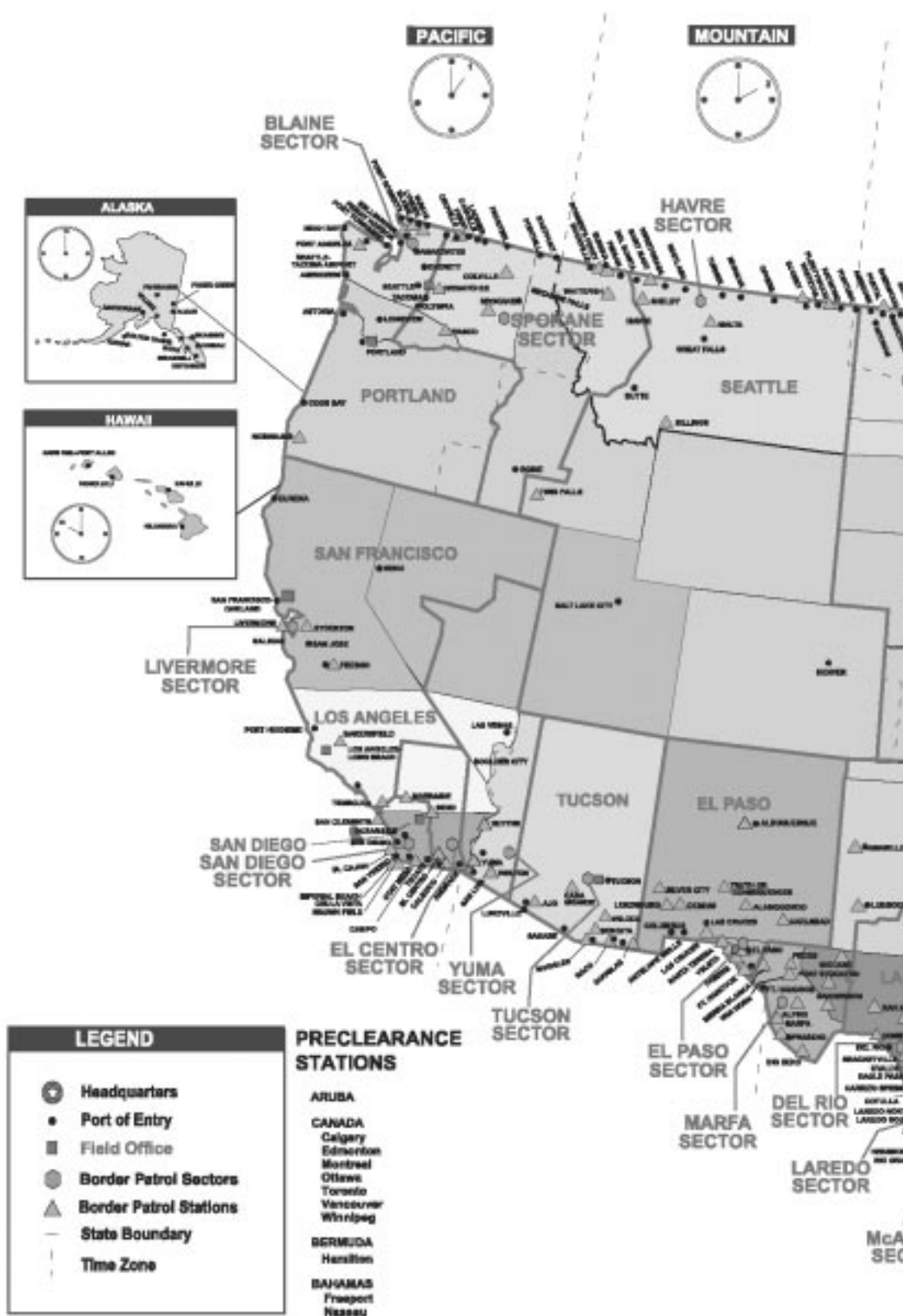
CBP will have to continue to improve its strategies in the face of alliances that have developed between domestic and international terrorist organizations. Terrorists use established smuggling and illegal immigration routes. We must directly address this level of criminal activity – including monitoring and controlling the potential intentional disruption of our natural resources such as domestically grown agricultural products and water supplies, as well as imported food.

Balancing Trade and Travel while Ensuring Security and Safety

We must craft a system to keep terrorists and their weapons out of the U.S. while finding a balance between enforcement and trade facilitation. We must find more efficient ways to improve security in moving freight. Continued global population growth means more diverse international passenger travel, and economic pressures often lead to an increase in attempts to illegally enter the U.S.



U.S. Customs and Border Protection





Technology and Inventions

DHS must link the disparate databases, agency-specific technologies, and incompatible communication systems of the 22 agencies and bureaus that it now encompasses. Innovative technology solutions for monitoring, inspection, information sharing, and enforcement will grow, but there will be implementation and standardization challenges to overcome.

Adapting our Workforce

DHS must build and adopt a new culture, set new priorities, and provide adequate training for employees. One face at the border is already leading to a change in core occupations, such as development of the CBP Officer position.

Meeting the Challenges Through Planning and Coordination

Our Strategic Plan is addressing these challenges by combining training for our personnel with the deployment of advanced targeting methodologies and technologies to make our inspections process more effective and efficient.

FY 2003 Reporting

CBP is in the process of realigning strategic goals and the associated performance measures for FY 2003 and FY 2004 as a result of the creation of DHS and the reorganization of its component agencies. Reporting of performance measures in the Management Discussion and Analysis section of this report by CBP programs will, therefore, be streamlined. It is the intention of this report to show the results of the transition by charting CBP's major priorities and initiatives for FY 2003 and the progress made by new components of the agency in implementing new goals and priorities throughout the year.

Additional details of CBP's organization, structure, and strategic planning are available at the CBP website (<http://www.cbp.gov>)

Composition of CBP Inspection and Patrol Workforce Full-Time Permanent On-Board Staff

	On-Board 10/4/2003
Canine Enforcement Officer	736
Import Specialist	1,027
Customs Inspector	9,893
Agriculture Inspector	1,471
Border Patrol Agent*	10,634
Immigration Inspector*	6,907

* CBP extracted current on-board numbers as of 10/4/2003

Budget

Actual Fiscal Year Budget Resource Obligations (in millions)

	1999	2000	2001	2002	2003
Salaries and Expenses Direct (includes obligations authorized under COBRA)	\$2,067	\$2,041	\$2,158	\$2,309	\$2,501
Salaries and Expenses Reimbursable	462	542	451	519	555
Automation Modernization			161	476	280
Puerto Rico Refunds, Transfers, Expenses	106	96	86	87	88
Operations and Maintenance	195	177	214	206	193
Facilities	2	2	8	0	0
Small Airports	3	3	3	6	3
Crime Bill	55	21	65	35	34
Refunds, Transfers	7	5	7	6	6
Harbor Maintenance Fee	3	3	3	3	3
Totals	\$2,866	\$2,934	\$3,126	\$3,620	\$3,978

CBP Budget – Impact of Transition

CBP current budget resources were assigned during OMB's Determination Order process. Monies originally appropriated by legacy departments were transferred to DHS March 1, 2003.

For FY 2003 funding for the Bureau of Immigration and Customs Enforcement (ICE) was included in funds transferred to CBP which provided cross-servicing for the newly formed bureau that also is part of the DHS Directorate for Border and Transportation Security.

How Legacy Customs Used its Budgetary Resources

The chart above presents the distribution of CBP budget resource obligations for FY 2003, as compared to previous years. Please note that these are legacy Customs categories and amounts. In carrying out its program activities, Customs spent the greatest part of its appropriated resources on the Salaries and Expenses (S&E) categories. Reimbursable S&E account for approximately 22 percent of the annual budget. Automation Modernization represents the third largest CBP program category at approximately 7 percent of CBP's resource obligations. The Operations and Maintenance Program transferred to ICE accounted for approximately 5 percent of resource obligations.



CBP officers in new uniform performing passenger inspection.

Management Discussion and Analysis

Preventing Terrorism

Goal: Detect and prevent terrorists and terrorist weapons, including weapons of mass destruction, from entering the U.S.

Overview

CBP's core work involves facilitating legitimate international cargo and passengers through our borders and interdicting high-risk cargo and passengers while also maintaining the integrity between our borders. To achieve its mission, CBP's strategy is leveraged to be both multi-faceted, yet completely integrated. CBP is increasing the level of security against international terrorist threats at and between the POEs into the U.S. through the tireless pursuit of legislative and regulatory changes, international government and trade partnerships, automation solutions, technological innovations, international passenger programs, and coordinated national targeting.

Challenges

In FY 2003, the President and Congress established DHS. DHS comprises many agencies that were once operating independently and are now fused to be greater than the sum of its parts by unifying and coordinating the protection of our nation from threats both foreign and domestic. Being a part of DHS, CBP is also participating in the challenge of merging agency personnel, missions and automation systems together to form the most efficient and responsive border agency.

With respect to international economics, increased security surrounding global trade growth, and increased passenger travel, CBP continues to rise to the challenge of equitably balancing both security and facilitation. To meet these challenges, CBP aggressively seeks to advance foreign and domestic law enforcement partnerships and data exchanges to enhance targeting and improve inspection capabilities while maximizing the security and movement of legitimate travelers and commerce.

Analysis of Performance

As part of CBP's strategy to address the threat of terrorism and strengthen homeland security, it has pursued multiple legislative and regulatory changes. During FY 2002, the legacy U.S. Customs Service embarked on an initiative to modify the quantity and quality and timeliness of specific international cargo transportation data to be provided for screening and risk determination prior to arrival or departure from the U.S.

This past year, CBP worked closely with the trade community to develop an advance manifest regulation addressing that issue with respect to oceangoing cargo. The final version of that regulation, the so-called "24-hour rule," took effect on December 2, 2002. It requires the presentation of accurate, complete manifest information on cargo destined for the U.S. 24 hours prior to loading of a container on board a vessel at the foreign port. The regulation also improves the quality of information presented, because under the regulation, vague descriptions of cargo such as Freight All Kinds (FAK) are no longer acceptable. When we receive the information, the data is processed through CBP's ATS, and reviewed by our NTC, to identify high-risk oceangoing cargo.



Testing for the presence of a chemical or biological agent.

On February 2, 2003, CBP began a strategy to ensure compliance with the 24-hour rule to permit the trade to adjust its business practices. The compliance strategy has involved, for the first time, issuing “no-load” orders and denying permits to unlade in the event of non-compliance. We are seeing significant compliance with the rule.

This was a decisive move against terrorism because it not only improved the timeframe available for targeting and response actions, but also demonstrated the commitment of international carriers and non-vessel operating common carriers to provide critical supply chain information earlier in the transportation process.

Trade Act of 2002 - Advance Information for All Commercial Modes

Successful targeting of high-risk goods transported through other commercial modes is as important as successful targeting of high-risk goods transported by sea. As with oceangoing cargo, good information received earlier in the process is the key to that successful targeting and the application of sound risk management principles.

In the Trade Act of 2002, Congress recognized the importance of such advance information by mandating presentation of

advance data on all commercial shipments, both inbound and outbound. CBP has worked through the consultative process called for in the Trade Act of 2002 to determine the most appropriate advance information requirements for land, rail, and air cargo. During this process, we have met continuously with all segments of the trade. This will help ensure that the final rule for requiring this information meets the security objectives of CBP while also taking into account the realities of the businesses involved in the different transport modes. CBP anticipates a proposed rule being issued shortly, and a final rule being issued by the end of the calendar year.

Performance goal: Cooperatively develop and propose new rules with industry partners and other government agencies that will enhance security.

Performance measure: Publish Notice of Proposed Rule Making (NPRM)

Results: CBP, through the combined efforts of its OFO and ORR, has promulgated draft regulations for advanced receipt of inbound and outbound cargo information in electronic format for all modes of transportation. CBP received and reviewed comments from public meetings and drafted the NPRM for each mode of transportation. The NPRM was published on July 23, 2003, with a 30-day comment period that expired on August 22, 2003.

The timeframes* in the NPRM are:

Mode	Inbound (before arrival)	Outbound
Truck	1 hour prior to arrival at the border for non-Free and Secure Trade (FAST) participants; 30 minutes for FAST participants	No later than 1 hour prior to arrival at the border
Rail	2 hours prior to arrival at U.S. port of entry	No later than 4 hours prior to attaching the engine to the train to go foreign
Vessel	24 hours (prior to lading)	No later than 24 hours prior to departure of the vessel
Air	4 hours Wheels up from NAFTA and Central and South America above the equator	No later than 2 hours prior to scheduled departure time of the aircraft

*Timeframes in the final rule may differ.

In addition to working with the transportation industry CBP also continues to strengthen relations with international governments and trade partnerships. Programs such as

CSI represent how CBP is pushing the border out and cooperatively joining with other international governments to focus resources on combating terrorism at the source.

International Government and Trade Partnerships

CSI

Initiated in January 2002, CSI represents the significant commitment of CBP and foreign governments in the war on terrorism. CSI assists CBP in addressing the threat to border security and global trade posed by the potential for concealment of an implement of terror in a sea container. Through this initiative, CBP will work with host Customs administrations in foreign countries to establish security criteria for identifying high-risk containers. Working with foreign administrations, CSI is a four-part program designed to achieve a more secure maritime trade environment while ensuring the need for efficiency in global commerce. The four core elements of the program are: (1) establishing security criteria to identify high-risk containers; (2) pre-screening those containers identified as high-risk prior to arrival at U.S. ports; (3) utilizing technology to quickly pre-screen high-risk containers; and (4) developing and using smart and secure containers.

Performance Goal: Develop a strategy that includes partnering with foreign governments to expand targeting and examination capabilities to detect implements of terrorism prior to arrival in the U.S.

Performance Measure: Foreign country participation in CSI.

Results: To date, 19 of the top 20 ports by greatest shipping volume have committed to joining CSI and are at various stages of implementation. These top 20 ports are points of passage for approximately two-thirds of containers shipped to the U.S. CBP also expects that some of these CSI partners will station their officers in the U.S., as Canada and Japan have already done. Although the participating countries are in various stages of CSI implementation, CBP has deployed CSI teams to three fronts in the war on terrorism, the European front, the African front, and the Asian front. The European front consists of Rotterdam, Netherlands; Le Havre, France; Bremerhaven and Hamburg, Germany; Antwerp, Belgium; Gothenburg, Sweden; Felixstowe, U.K.; and Genoa and La Spezia, Italy. The African front consists of Durban, South Africa. The Asian front consists of Singapore; Yokohama, Japan; Hong Kong; and Pusan, Korea.

The continued expansion of CSI was announced by Secretary Ridge on June 12, 2003, which includes an additional 25 ports based on both volume and strategic location. In addition to expanding to more locations, the World Customs Organization and G8 have adopted resolutions that support the implementation of the security measures introduced by CSI at ports throughout the world. Even though CSI acceptance and momentum continues to increase, CBP also moves forward to engage the true drivers of commerce, the international trade community, through industry partnerships.



Customs-Trade Partnership Against Terrorism (C-TPAT)

CBP has active partnership programs that are designed to deter and prevent the smuggling of narcotics and implements of terror from being moved into the U.S. via commercial cargo and conveyances.

Premier among these active partnership programs is the C-TPAT program, which is a voluntary government-business initiative, designed to build cooperative relationships that enhance border security and facilitate legitimate trade. The goal of C-TPAT is to develop and maintain a secure supply chain, enabling CBP to facilitate trade while ensuring safe and secure borders against terrorism. C-TPAT is designed to utilize and enhance the security processes and procedures currently employed by the trade community to ensure that international shipments are not compromised or diverted by terrorists or their accomplices. A C-TPAT participant is expected to conduct a self-assessment of its current supply chain security procedures and enhance security where vulnerabilities exist. Participants also make a commitment to work with their service providers throughout their supply chain to enhance security processes and procedures worldwide. CBP recognizes that a safe and secure supply chain is critical to national security and C-TPAT provides the highest level of security through close cooperation with the supply chain stakeholders—importers, brokers, carriers, and others. Participants in this first worldwide supply chain security initiative ensure a more secure supply chain for their employees, suppliers, and customers.

In FY 2003, C-TPAT initiated the supply chain security validation process to review and verify the C-TPAT participant's commitment to securing their worldwide supply chain. CBP officers, specially trained in supply chain logistics and anti-terrorism, are actively reviewing and verifying the supply chain security measures of C-TPAT partners.



Many truck inspections take place at the border each year.

An earlier program already available for combating smuggling and terrorism is the Carrier Initiative Program (CIP). CIP, established in 1984, is a joint effort among air, sea, truck, and rail carriers and CBP. There are over 4,100 carriers currently participating in the CIP. The program encourages the carriers to improve their security practices in striving to prevent narcotics or other illicit commodities from getting onboard their conveyances.

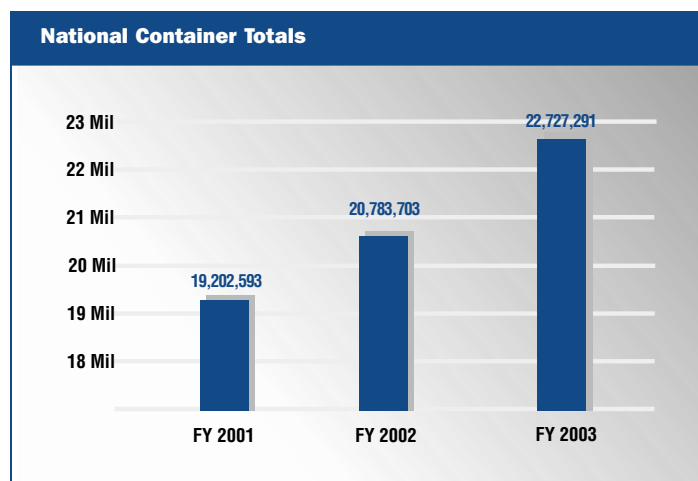
Additionally, CBP has continued to support the Business Anti-Smuggling Coalition (BASC), initiated in March 1996, which is a business-led alliance created to combat narcotics smuggling via commercial trade. BASC was designed to complement and enhance the CIP program. The idea behind BASC is to examine the entire process of manufacturing and shipping merchandise from foreign countries to the U.S. The program also heightens business awareness about narcotics smuggling in the import and export communities. Membership in BASC as of September 2003 included over 4,500 companies in Mexico, Panama, Ecuador, Peru, Jamaica, Costa Rica, Colombia, and Venezuela.

Also, CBP has reached out to strengthen partnerships between industry and other governments through the Americas Counter Smuggling Initiative (ACSI). The ACSI is a priority undertaking, established by CBP, to build upon the success of the CIP and BASC by strengthening and expanding our anti-narcotics security programs with industry and governments throughout Central and South America. Since January 1998, Customs has detailed officers to assist businesses and governments in developing security programs and initiatives that safeguard legitimate shipments from being used to smuggle narcotics. Target countries include Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru, Venezuela, and Jamaica.

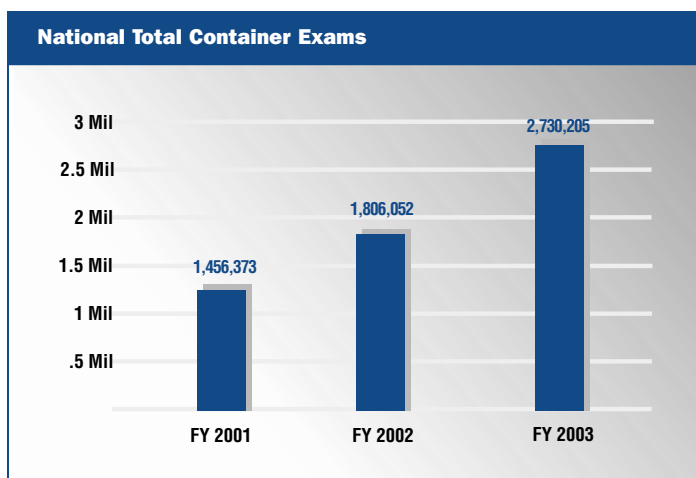
CBP has worked diligently to involve the international trade community and foreign governments. It has also engaged in partnerships with other domestic government agencies to develop additional methods for securing our borders from the threats of terrorism.

Automation Solutions

Considering the global impact of free flowing trade and travel on the world economy, CBP cannot institute an examination methodology where every person or shipment will be examined. To mitigate the opportunity for terrorism, to increase the risk associated with international cargo or travel, and to facilitate legitimate cargo and passengers, CBP uses a layered risk-management approach to preventing terrorism.



CBP's automated targeting capabilities are essential to the layered risk-management process employed to identify and inspect the high-risk targets that warrant screening and inspection. The premier tool employed by CBP to identify high-risk targets in both the cargo and passenger arena is ATS. The ATS platform enables CBP to collect, analyze, and select shipments and passengers for further review and examination. CBP uses the data collected through legislative and regulatory actions, such as the recent implementation of the 24-hour advance notice of arriving cargo, and the Passenger Name Record Information and Advance Passenger Information initiatives discussed later in the Passenger section of this document, to identify high risk cargo and travelers prior to their arrival. This early detection capability allows CBP to notify other foreign or domestic law enforcement agencies and prepare an appropriate response well before the actual arrival of the cargo or traveler. The ATS system is currently supporting CBP targeting efforts in both passenger and multi-modal cargo environments domestically and, through the CSI program, it is in operation in foreign countries.



Technological Innovations

Non-Intrusive Inspections (NII)

As trade increases, CBP's deployment of NII technology resources to support our layered risk management approach to secure the borders from terrorism becomes more and more critical. In conjunction with CBP's many other initiatives (C-TPAT, ATS, CSI, US/VISIT, and others), NII allows CBP to work "smarter."

Because of the risk that an adversary can circumvent any single sensor or device, CBP does not rely on any single technology or inspection process. Instead, Customs uses various technologies in different combinations to substantially increase the likelihood that a nuclear or radiological weapon or weapons grade material will be detected.

Over the last several years, NII technology has been the cornerstone of our layered strategy. Technologies deployed to our Nation's sea, air and land border POEs include large-scale X-ray and gamma-imaging systems, as well as a variety of portable and handheld technologies, to include our recent focus on radiation detection technology.

NII technologies are viewed as force multipliers that enable us to screen or examine a larger portion of the stream of commercial traffic while facilitating the flow of legitimate trade, cargo and passengers. In September, 1996, our first large-scale NII system, a Truck X-ray, became operational in Otay Mesa, California. Today, we have 133 large-scale NII systems deployed. These systems include the Vehicle and Cargo Inspection System (VACIS), Mobile VACIS, Truck X-ray, Mobile Truck X-ray, Rail VACIS, Mobile Sea Container Examinations Systems, and the Pallet Gamma-ray System.

CBP is deploying nuclear and radiological detection equipment, including personal radiation detectors (PRDs), radiation portal monitors (RPMs) and radiation isotope identifier devices (RIIDs). In combination with our layered enforcement strategy, these tools currently provide CBP with significant capacity to detect nuclear or radiological materials.

Through FY 2003, NII technology has been used at the POEs to conduct 4,833,677 examinations, resulting in 2,190 seizures totaling 1,122,433 pounds of narcotics.

We have invested approximately \$400 million in NII technologies and our investment may approach \$1 billion over the next several years to ensure we are doing everything we can to maximize the use and effectiveness of NII systems. CBP is pursuing several actions to strengthen the NII training program. This includes the "schoolhouse concept" of having uniform NII training conducted at the Federal Law Enforcement Training Center (FLETC) and comprehensive refresher image interpretation training – which includes weapons of mass destruction.

Preventing Illicit Nuclear or Radiological Weapons or Material From Entering the U.S.

CBP has developed and published a *Comprehensive Strategy to Address the Threat of Nuclear and Radiological Terrorism*. This outlines a strategic approach to combating nuclear and radiological terrorism. The strategy to strengthen our efforts to combat nuclear and radiological terrorism consists of four layers:

- Countering proliferation of nuclear and radiological materials at the source;
- Controlling the illegal export of weapons, technology, and equipment that leaves our country and its acquisition by terrorists and rogue nations;
- Moving beyond our physical borders to better secure the supply chain abroad; and
- Maintaining a secure border at our POEs.

One part of this strategy is to move quickly to deploy Radiation Detection technology at and between our POEs, with the ultimate goal of screening 100 percent of all conveyances, containers, passengers, mail, and express consignment packages for radiation. We must accomplish this without impeding the flow of trade into the U.S.

- Over 8600 PRDs have been distributed to our POEs and 500 at Border Patrol checkpoints; we have also mandated 100 percent primary coverage by sharing with legacy INS.



A container ship docks at the Miami seaport.

- A total of 63 RPMs have been deployed to POEs, 54 to the NB and nine to mail and Express Consignment Cargo Facility locations.
- A total of 315 RIIDs have been deployed, and to date, over 2,700 inspectors have been trained in their use.

International Passenger Programs

As discussed later in greater detail, CBP has made huge advances in preventing terrorism in the passenger venue. The discussion here will only highlight some of those advances.

CBP's mission of protecting the public from terrorist threats encompasses both the cargo and passenger arenas. Analogous strategies are employed for both environments. Just as in the cargo environment, CBP pursues collection of data on passengers in advance of arrival, through the Passenger Name Record and Advance Passenger Information recording process.

Advance information is critical to our efforts to identify individuals who may pose a security threat. Before September 11, 2001, air carriers transmitted information on international airline passengers in advance of their arrival to the APIS on a purely voluntary basis. Legislation enacted by Congress in late 2001 made submission of this information mandatory. This information is obtained prior to arrival in the U.S. for all passengers, and is transmitted electronically to CBP's APIS. An informed, enforced, compliance plan instituted by CBP has resulted in 99 percent of all passenger and crew information (including those pre-cleared outside the U.S.) now being transmitted through APIS in a timely and accurate manner. CBP, through its combined customs and immigration authorities, uses advance passenger information to evaluate and determine which arriving passengers pose a potential terrorist risk.

In step with the cargo setting, ATS provides a venue for expeditiously analyzing, cross-referencing, and selecting high-risk passengers for exam. This advance targeting provides CBP a window of opportunity to prepare and address potential threats well before arrival, and in some cases prior to passenger boarding.

Smart Border Accord

An important key to building a smarter border is extending our zone of security beyond our physical borders. CBP has done this on a far-reaching basis by partnering with other countries on our CSI initiative, one of the most significant and successful initiatives developed and implemented after September 11, 2001. We have also done this by partnering with Canada on FAST and the NEXUS program, by expanding programs, like the Secure Electronic Network for Travelers Rapid Inspection (SENTRI) on the U.S./Mexico Border, and by partnering with the private sector with C-TPAT.

Canadian Partnerships

Since the terrorist attacks of September 11, 2001, CBP has worked closely with Canada to develop and implement initiatives that increase security and facilitate travel and trade at our shared 4,000-mile border. Many of these initiatives have been implemented under the Smart Border Declaration entered into between the U.S. and Canada in December 2001. This Declaration focuses on four primary areas: the secure flow of people; the secure flow of goods; investments in common technology and infrastructure to minimize threats and expedite trade; and coordination and information sharing to defend our mutual border. By benchmarking our security measures and sharing information, CBP and Canadian Customs, now Canada Border Services Agency, are able to relieve pressure and congestion at our mutual land border.

Integrated Border Enforcement Team (IBET)

Since September 11, 2001, the Border Patrol has expanded an already proven initiative called IBET, which pools law enforcement resources and integrates operations and activities from various federal, state, and local law enforcement agencies and the Canadian Government. The IBET concept has been expanded from two locations to fourteen locations that now cover the entire NB. Representatives of the Royal Canadian Mounted Police are an integral part of the IBET teams.

FAST

Through FAST, importers, commercial carriers, and truck drivers, who enroll in the program and meet agreed upon security criteria, are entitled to expedited clearance at the NB. Using electronic data transmission and transponder technology, we expedite clearance of approved trade participants. The FAST program fosters more secure supply chains, and enables CBP to focus security efforts and inspections where they are needed most – on high-risk commerce while making sure legitimate, low-risk commerce faces no unnecessary delays.

FAST was announced by President Bush and Prime Minister Chretien in Detroit in September 2002, and it is currently operational in 27 lanes at six major crossings along the NB. Eventually, FAST is projected to expand to all 26 commercial centers located throughout the NB.



NEXUS

Also with Canada, CBP has implemented a program that enables the focusing of resources and efforts on high-risk travelers, while making sure those travelers who pose no risk for terrorism or smuggling, and who are otherwise legally entitled to enter, are not delayed at our mutual border. This is the NEXUS Program, under which frequent travelers whose background information has been run against crime and terrorism indices are issued a proximity card, or SMART card, allowing them to be waived expeditiously through the POE.

NEXUS is currently operational at 10 crossings located at five major POEs on the NB: Blaine, Washington (3 crossings); Buffalo, New York (2 crossings); Detroit, Michigan; Port Huron, Michigan; and Champlain, New York. NEXUS lanes are scheduled to open at the following 3 locations: Lewiston Bridge, New York; Sweetgrass, Montana; and Whirlpool Bridge, New York. The Whirlpool Bridge, scheduled to open in March 2004, will be the first NEXUS-only crossing.

Partnership with Mexico

CBP has continued important bilateral discussions with Mexico to implement initiatives provided for in the Border Partnership Plan that will protect our Southern Border (SB) against terrorist threat, while also improving the flow of legitimate trade and travel. With respect to cargo crossing our border with Mexico, for example, we have implemented the pilot FAST program on the SB in El Paso, Texas on



Examining baggage at Dulles Airport.

October 27, 2003. An additional measure taken to secure rail cargo crossings involved installing rail Vehicle and Cargo Inspection Systems.

In the very near future, air passengers entering the United States by way of Mexico will be screened using the Advanced Passenger Information System. This early warning system is designed to identify known or potential terrorists trying to enter the U.S. and is an additional measure taken to tighten the noose on terrorist movements.

Cooperation between CBP and Mexico Customs is best demonstrated in the work accomplished by Regional Subgroups. The Subgroups concentrate on coordinating hours of operations at our shared land border, improving communications, and developing, monitoring, and implementing infrastructure changes that will facilitate the movement of people and goods in a secure environment.

CBP and Mexico Customs meet on a quarterly basis, not only to determine where we are in terms of delivering action items prescribed in the 22-Point Plan of the U.S./Mexico Border Partnership Plan, but also to develop and refine new initiatives. New initiatives will further enhance secure and efficient movement of people and goods.

Secure Electronic Network for Traveler's Rapid Inspection (SENTRI)

SENTRI is another smart border initiative on our SB. SENTRI is a program that allows low-risk travelers to be processed in an expedited manner through a dedicated lane at our land border with minimal or no delay. SENTRI is currently deployed at three southwest border (SWB) crossings: El Paso, San Ysidro, and Otay Mesa, and expansion plans are being considered. In fact, our SENTRI team met with their Mexican counterparts in the spring of 2003 to discuss expansion logistics.

US-VISIT

Another border-related program that is currently being implemented, and that will rely on sophisticated technology and quick access to critical data, is the recently announced US-VISIT program. Under this program, DHS will implement a number of legislative requirements related to the entry and exit of visitors to the U.S. Once implemented, US-VISIT will provide CBP personnel with the capability to use biometric features such as fingerprints, photographs, or iris scans to identify accurately people that are traveling into and out of the U.S. In this way, US-VISIT will strengthen and increase the reliability of our terrorist and other database checks on such individuals when they enter and exit the U.S. As Secretary Ridge has announced, US-VISIT will be implemented at airports and seaports by the end of calendar year 2003.

Coordinated National Targeting

National Targeting Center

Historically, legacy Customs successfully targeted for narcotics and currency violations in both the passenger and trade environments. Immediately following the terrorist attacks on September 11, 2001, Customs adapted its targeting methodology for anti-terrorist and national security concerns. Recognizing the scope of the threat, Customs created a National Targeting Center (NTC, formally known as the Office of Border Security) within the OFO.

NTC began around the clock operations on November 10, 2001, with a priority mission of providing tactical targeting and analytical research support for Customs anti-terrorism efforts. As border inspectional assets from Customs, INS, and USDA came together on March 1, 2003, under the umbrella of CBP, the NTC mission broadened commensurately with the CBP role in support of Homeland Security.

NTC is primarily staffed by inspectors and field analysis specialists that are experts in passenger and cargo targeting for air, sea, and land operations in the inbound and outbound environments. Under the guidance of a Watch Commander, the NTC staff develops tactical targets from raw intelligence in support of the CBP mission to detect and prevent terrorists and terrorist weapons from entering the U.S. NTC also supports CBP field elements, including CSI initiative personnel stationed in countries throughout the world, with additional research assets for passenger and cargo examinations.

In January 2003, the NTC staff relocated to a state-of-the-art facility. The new facility is designed to accommodate representatives from all CBP disciplines, including representatives from the Office of Border Patrol, the Office of Intelligence,

and the Office of Information and Technology, as well as liaison staff from the law enforcement and intelligence community. During FY 2003, NTC developed liaison with the Office of Naval Intelligence and the U.S. Coast Guard via an exchange of personnel with the National Marine Intelligence Center. NTC has also exchanged personnel with the Transportation Security Administration, and the Department of Energy, and provided targeting expertise to the DHS Operations Center.

Working together with CBP partners within DHS and beyond, the NTC mission continues to evolve as a cornerstone in the war on terrorism. Centralized NTC targeting endeavors, combined with intra and interagency collaboration, assure CBP of a coordinated response to terrorist and national security events.

Intelligence

As of March 1, 2003, the CBP OINT built a competent, highly dynamic intelligence program that is directly focused on supporting front line CBP units in detecting and deterring terrorists and the movement of their weapons. The Director of OINT provided to senior managers' weekly intelligence briefings and threat assessments. The Director also provided senior field managers monthly highlights of pertinent terrorist activity. On a daily basis, OINT analysts reviewed approximately 1,500 documents containing terrorism intelligence and produced about 220 intelligence alerts. In just three months, analysts produced 27 Homeland Security Intelligence Reports, which were disseminated to the field and to DHS. The Situation Room continued to produce a daily operational activity report for the Commissioner's Office and DHS.

To further the information sharing objective on terrorism-related activity, OINT, with the assistance of the Office of Information Technology, established a flag to ensure that reports from field inspectors are sent to designated intelligence analysts. OINT established and posted several articles to the CBPnet "INTELLIGENCE HIGHLIGHTS" web page to include information and pictures of stolen antiquities from an Iraqi museum, threat advisories, as well as current items of interest.

OINT expanded an interactive relationship with the NTC and Border Patrol and with Departmental entities such as the Border and Transportation Security and Information Analysis and Infrastructure Protection (IA/IP), facilitating better movement of information and analysis. OINT detailed analysts to the Central Intelligence Agency (CIA), the Federal Bureau of Investigation (FBI) and IA/IP to effectively collect and share critical terrorism related information.



Narcotics can be hidden anywhere.

The OINT continues to be fully engaged in supporting major CBP counter-terrorism initiatives such as the CSI, the C-TPAT, and other programs. OINT has seven analysts dedicated to CSI. These analysts have been part of the initial teams that negotiate the agreements with our foreign counterparts in setting up the CSI program in their country. The analysts also produce country threat assessments in support of U.S. goals in preventing weapons of mass destruction from entering the U.S.

The OINT increased its outreach to international partners, particularly in locations such as the United Kingdom, Canada, Australia, and New Zealand (resulting in more information being exchanged and a greater, multilateral awareness, of and response to, the threat of global terrorism).

The OINT developed extensive and ongoing liaison with the external Intelligence Community, to utilize information, building and expanding on previous efforts (exchange of intelligence products, cross training of personnel, analyst to analyst exchanges of information, and timely identification of potential terrorist threats with a border nexus).

Balancing Legitimate Trade and Travel with Security

Goal: Facilitate the more efficient movement of legitimate cargo and people while safeguarding the border and the security of the U.S.

Overview

The priority mission for all the component parts of CBP has now become homeland security. As CBP has evolved into the unified border agency of our country, that means detecting and preventing terrorists and terrorist weapons from entering the U.S.

However, at the same time, CBP must also continue to carry out the traditional missions of the predecessor agencies that make up CBP. In the trade facilitation and passenger processing areas these missions include, among others:

- determining the admissibility of people and goods;
- regulating and facilitating international trade;
- collecting duties, taxes and fees - \$25 billion was collected in FY 2003;
- enforcing all laws of the U.S., including trade laws, at our borders;
- intercepting high-risk travelers while expediting the travel of low-risk travelers
- deploying selectivity techniques, technology, and tools for the physical inspection of travelers' baggage and vehicles to enforce U.S. laws and avert high-risk situations.

Challenges

CBP has had to work to carry out its priority anti-terrorism mission and its traditional missions at the same time. This has been a major challenge. It has had to devise ways to combat terrorism without choking off the flow of legitimate trade and travel, so important to our Nation's economy and our openness as a nation. As a result of the events of September 11th, America had to strengthen its borders. But, to preserve the U.S. economy, indeed, the North American economy, America needed to reinvent the border as well. America needed a more secure border because of the terrorist threat. But as security was strengthened, we needed to ensure the continued movement of legitimate cargo and people through our borders. CBP's OFO is charged with accomplishing this important task, and, as a result, has established twin goals: (1) increasing security and (2) facilitating legitimate trade and travel.

CBP has learned that by using advance information, risk management, and technology, and by partnering with other nations and the private sector, the twin goals do not have to be mutually exclusive. Since September 11th, CBP has developed ways to make our borders more secure and also ensure the more efficient flow of legitimate trade and travel.

Another major challenge was that of increasing staff and improving the technology needed to accomplish these twin goals within a relatively short period of time. Before September 11th, the U.S. had only about 1,000 customs inspectors and about 500 immigration inspectors on our shared 4,000-mile border with Canada. Most of the lower volume border crossings were not open 24 hours a day. There was no security when they were closed, other than an orange cone in the road. Nothing stood in the way of someone driving a vehicle from Canada into the U.S., a



Contraband can be concealed in hard to find places.

vehicle that could have terrorists or terrorist weapons or could become a weapon – a car bomb. That was unacceptable.

Soon after September 11th, the Commissioner of Customs directed that all border crossings be staffed with two armed Customs inspectors 24 hours a day and seven days a week. But this 24x7 staffing was a temporary measure while Customs undertook a project to “harden” and electronically monitor our low-volume northern POEs to prevent unauthorized crossings. This was accomplished by installing gates, signs, lights, and remote camera surveillance systems.

CBP has since received significant staffing increases for the NB. Today, there are over 2,900 CBP inspectors along the NB, up from about 1,500 two years ago. CBP has also bolstered its staffing on the SB. Prior to September 11th, there were 4,371 inspectional staff at the southern POEs. Today, there are almost 4,900 standing ready to protect America. CBP has also added sophisticated detection technology, such as large scale x-ray type machines that can scan an entire tractor trailer truck in minutes. There are now 24 such machines deployed at all the significant commercial crossings between Canada and the U.S. There were none on September 11th. Nationwide, there has been an increase in the number of whole container x-ray-type machines from 63 to 134.

Trade Facilitation

Partnership with the International Trade Community

CBP engages the entire breadth of the international trade and transportation communities in productive partnerships that provide a forum to exchange ideas and share experience. This engagement allows the private sector to provide input into legal, operational, and policy concerns and CBP to incorporate feedback from the private sector into key initiatives. CBP-industry partnerships have produced vital programs that enhance national security while facilitating legitimate commerce.

The OTR functions as liaison between CBP officials and the international trade community and is responsible for fostering a positive relationship with the trade community. This office is the primary contact for trade representatives to advance issues and ideas to CBP, and for CBP to advance its agenda to the trade community. The CBP mission of homeland security cannot be accomplished without the assistance and active participation of the trade community, and this help is crucial if we are to safeguard the American homeland as well as contribute to the continued growth of the world economy.

Trade Regulations and Rulings

In FY 2003, ORR achieved significant milestones that supported the priority and traditional missions of CBP. The following are highlights of actions regarding regulations that support CBP border security initiatives.

24 Hour Advance Vessel Manifest Information (24 Hour Rule)

- In October 2002, CBP published the final rule on the 24-hour Advance Vessel Manifest requirement, which provides the legal underpinning of the CSI. This rule, which became effective in December 2002, requires ocean carriers to present manifest information for cargo bound for the U.S., 24 hours prior to the lading of the cargo on the vessel at the foreign port of departure.
- After promulgation of the rule, ORR met with the trade to provide assistance in understanding the operation of the new rule and issued written guidelines for assessment and mitigation of penalties and liquidated damages that would be used to enforce compliance with the 24-hour rule.

Trade Act Regulations (Section 343).

- Operating under the new and unusual authority of the Trade Act of 2002, which included a deadline and required consultation with the public in the development of the rule, ORR led a multi-disciplinary team that:
 - developed a regime of regulatory requirements mandating electronic transmission to CBP of cargo information for merchandise arriving and departing the U.S. before such arrival or departure.
 - organized and participated in four well attended public meetings, followed by numerous sessions with a statutorily created trade advisory group.
 - prepared and circulated for review, approval, and publication, well within the short time frame provided by law, a thoughtful and comprehensive regulatory document.
- This precedent setting regulatory initiative, which covers merchandise transported into and out of the U.S. by air, sea, rail, and truck, substantially amends six different parts of Title 19, Code of Federal Regulations, which governs all CBP border security activities. As a result of this accomplishment, CBP regulations will provide the necessary authority and blueprint for receiving advance information regarding cargo arriving into, and leaving from, the U.S., thus enabling CBP to fortify an essential protective buffer around our nation.

Transit-Without-Visa (TWOV) and International-to-International (ITI) Programs.

- In order to allow DHS to evaluate the risks of exploitations by terrorists, ORR, within less than a week, published emergency regulations in August 2003, suspending the TWOV and ITI programs indefinitely. As a result of this quick action, the national security threat from terrorists slipping into the U.S. while transiting through U.S. airports was eliminated, and the Secretary now has the ability to provide for appropriate safeguards should some variations of these programs be reinstated in the future.

ORR was also involved in a number of innovations to enhance the delivery of services:

Electronic Rulings (eRulings) Program

- At the request of the trade community, the National Commodity Specialist Division (NCSO) of ORR, located in New York, initiated a prototype to test the electronic receipt and issuance of requests for binding rulings under 19 CFR 177. The NCSO requested and received an email address from the Office of Information Technology (OIT) in January of 2003. The email address is (binding.rulings@dhs.gov). Working with volunteers

- from the Commercial Operations Advisory Committee (COAC), the NCSO began testing the acceptance of binding classification ruling requests in February of 2003. By March of 2003, the first receipt of an electronic transmission of a binding ruling request was accomplished. At that time, all NCSO responses had to be issued by mail.
- On July 21, 2003, a Washington D.C. law firm submitted four eRuling requests via email, which were accepted in good form and assigned to two different National Import Specialists. On July 23, 2003, the NCSO successfully issued and transmitted the first-ever binding ruling response to the law firm via the email address. The NCSO has responded electronically to the last eight eRuling requests. As a result of this success, the list of potential participants is expanding and the program will be formally announced to the general public.
- Electronic rulings provide the public with information, essential to making sound business and economic decisions, in the fastest time possible. In addition, both the public and the government benefit from the elimination of expenses for postage and handling.

In addition to its other work, ORR also engaged in international outreach through the INA by providing experts to assist in the technical assistance program conducted on behalf of the World Customs Organization (WCO) and the World Trade Organization (WTO). ORR also provided technical expertise bilaterally and multilaterally to foreign officials on matters such as tariff classification, country of origin, marking, quotas, duty preferences, customs valuation and IPR. Finally, ORR assisted the U.S. Trade Representative during several trade negotiations by providing technical expertise.



All types of cargo must be examined.

Analysis of Performance

Overall Impact Statistics:

Projected FY 2003 Total Value of Imports: \$1,234 billion

FY 2003 Total Entry Summary Count: 26.1 million

1st 6 months FY 2003 IPR Seizures (number): 3,117

1st 6 months FY 2003 IPR Seizures (value): \$37.9 million

Compliance Measurement

The Compliance Measurement (CM) program, initiated in FY 1995, collects objective statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations and agreements, and estimates the revenue gap. CM data is also used in risk management decisions to identify high-risk areas and measure the effectiveness of actions taken to improve compliance in those areas.

From FY 1998 through FY 2001, the overall trade compliance rate improved significantly, rising from 89 percent to 91 percent. With overall compliance at a high level, legacy Customs began to emphasize matters of significant trade risk.

The CM program was temporarily disrupted following the September 11, 2001 terrorist attacks when the majority of inspection resources were directed to address security concerns. The program was discontinued for most of FY 2002, due to the uncertainty on perceived terrorist threats. FY 2002 also marked a transition period for CM in developing methodological details to incorporate security issues into its data gathering effort. Even though the program was resumed near the end of the fiscal year, there was not sufficient data to provide compliance and revenue gap estimates for FY 2002.

Recognizing the important roles it plays in risk management, as well as in security assessment, the CM program was fully restored for FY 2003. The final CM statistics for the fiscal year will be available in January 2004 when the fiscal year's CM examinations are complete and results are compiled.

Strategic Trade Activities

CBP has worked to develop a strategic approach to trade that fully supports the priority mission of security at our borders while at the same time continuing to respond to an international trade system that demands the effective screening and efficient processing of cargo. This national trade strategy approach provides the opportunity to develop complementary methods to trade and other CBP priorities.



Non-intrusive technology is a powerful tool for expediting inspections.

The fundamental guiding principles of this national trade strategy are to sharpen the focus on high-risk trade issues, leverage facilitation by making full use of facilitation programs, ensure revenue collection, make certain that actions are directed to address national priorities, and intensify the organization's preparation for modernization. In support of this, CBP works to maintain a high level of trade compliance, collect the appropriate revenue, and fulfill the administrative and enforcement obligations required by trade mandates.

The strategic approach is organized around Priority Trade Issues (PTIs), which were developed using a consistent risk-based analytical approach. The emphasis is on integrating and balancing the goals of trade facilitation and trade compliance. Action plans have been developed for the following PTIs: Steel, Agriculture, Anti-dumping/Countervailing Duty (AD/CVD), IPR, and Textiles/Wearing Apparel. The actions supporting these PTIs are designed to ensure optimum compliance through the appropriate use of field resources and enforcement actions. In addition, similar strategic action plans are currently being developed in the areas of penalties, facilitation and revenue.

Steel

The Steel PTI strategic action plan incorporates experience gained over the last year and was modified to address emerging risks and ensure continued effective administration of the Presidential Steel Proclamation (Steel 201). The emphasis of the strategy is on swift, consistent enforcement action to address trade violations. The strategy provides an integrated plan that includes targeting, a streamlined verification process, and analysis. More than \$4.6 billion in steel imports accounting for nearly 150,000 entry lines have been subject to the Steel 201 to date. More than 7,000 verifications have been completed and over 300 penalties assessed as a result of the strategy.

Agriculture

The Agriculture PTI is taking a proactive approach in identifying potential risks of contamination of agricultural products, whether intentional through terrorist actions, or unintentional by harmful pests that may cause harm to the American public. This will be accomplished through threat risk analysis and improved inter-agency/intra-agency communication and coordination. A targeted inter-agency enforcement strategy is under development that will address CBP operational procedures at all alert levels and will improve CBP cargo examinations performed for other agencies.

AD/CVD

The AD/CVD PTI is currently working to develop and implement methodologies to ensure that all imports subject to AD/CVD are properly entered, liquidated and fully collected. The “Byrd Amendment,” which requires Customs to disburse to qualified case petitioners all collected AD/CVD duties, is an important part of this work. Strategic issues being addressed include inter-agency coordination and communication, surety bond sufficiency, improvement of operating efficiency and effectiveness, and enforcement.

IPR

The IPR PTI goal is to improve the effectiveness of IPR enforcement by ensuring a single, uniform CBP approach and focusing on known or alleged violators with high aggregate values. It targets in particular those linked to Southeast Asia or whose infringing products threaten health and safety or with possible ties to terrorist activity. Strategic approaches being undertaken include improved targeting by identifying risk factors, maintaining on-going international cooperation, increased knowledge and awareness internally, increased industry outreach and increased enforcement activities related to counterfeit trademark violations. During the first six months of FY 2003, there were 3,117 IPR seizures valued at \$37.9 million.

Textiles and Wearing Apparel

The Textiles and Wearing Apparel PTI goal is to ensure that inadmissible goods do not enter the commerce of the U.S. by designing and implementing innovative strategic approaches to identify and resolve instances of noncompliance. This is accomplished by using a series of actions which include deploying Textile Production Verification Teams, data analysis, inputting national criteria alerts, detaining, excluding, and seizing violating goods. In addition, CBP is partnering with industry and foreign government counterparts to improve the flow of information in addressing high-risk issues. In 2003, visits were made to 12 high-risk countries where 425 factories were visited.

Of these, 54 refused admission, 51 were permanently or temporarily closed, and eight had evidence of transshipment of goods.

In addition, in 2003 more than \$195 million worth of goods were seized that were being smuggled using the in-bond system. Counterfeit documents were also found involving seven countries.

Regulatory Audit

Regulatory Audit assesses importer compliance with customs laws and regulations, as well as the compliance of North American Free Trade Association (NAFTA) and drawback claimants, brokers, foreign trade zones, bonded warehouses, and a variety of special trade program areas.

The core business of Regulatory Audit is the Focused Assessment, a risk based audit of major importers. By assessing the risk of the various CBP programs in a company, and evaluating a company’s internal controls, the Focused Assessment reduces its scope of auditing to only those areas that present a risk to CBP. In this way, Regulatory Audit resources are carefully applied to achieve the maximum coverage in the trade area while reducing the intrusiveness to importing companies.

Focused Assessments are conducted according to professional auditing standards. They are led by Regulatory Auditors and include other trade experts within CBP such as Import Specialists, International Trade Specialists, and Account Managers that are part of the team.

Another priority of Regulatory Audit is the Importer Self-Assessment (ISA) Program. ISA is a partnership between CBP and importers to improve trade compliance. For those companies who are ready to assume the responsibilities for self-assessment, ISA offers meaningful benefits that can be tailored to industry needs.



11.1 million trucks entered the U.S. last year.

The third priority of Regulatory Audit is to provide technical auditing support to ICE in the fraud area as well as in the money laundering area.

ISA Program

CBP continues its commitment to encouraging companies to share responsibility for compliance with trade laws and regulations. For those companies that are willing to assume the responsibilities for self-assessment, ISA offers meaningful benefits that can be tailored to industry needs. ISA is designed to complement and support C-TPAT and allows highly compliant importers to assess their own compliance with minimal government oversight. The two programs are related in that they are based on the principles of partnership and self-governance with both offering significant benefits to participants.

The ISA program is primarily based on the development and use of established business practices and good internal controls designed specifically for a company's customs operations. There are currently 72 companies that have applied for ISA participation representing a combined import value of \$133 billion. The first ISA partners were approved in early 2003 and 14 companies have been approved to date. The program was also developed with the flexibility to be tailored to unique industry needs. During FY 2003, CBP worked collaboratively with representatives from the petroleum and textile industries to tailor the ISA program to unique industry needs. As a result, ISA standards were developed that establish and clearly define the expectations for importers in those industries participating in the ISA program. Under the agreements, importers who seek to join ISA will establish the uniform controls agreed upon between their umbrella trade organizations and CBP. In addition, the aerospace industry has approached CBP for similar standards.

Automated Export System (AES)

CBP's Office of Interdiction and Security (Outbound) has the responsibility to ensure that cargo being exported from the U.S. is done so in compliance with federal laws and regulations. To support the CBP goal for trade facilitation, Interdiction and Security has established the following objectives:

- Increase automation of export documentation,
- Increase compliance with manifesting and Shipper's Export Declaration regulations, and
- Expedite processing of legitimate export cargo.

CBP has a dual responsibility for the collection of export statistical information for the Bureau of the Census on export cargo and ensuring that the cargo complies with all the laws and regulations dealing with licensing and sanctions for that

cargo. One of the major tools utilized to accomplish this task is the AES. AES faces a number of challenges every year. Fully funding new AES projects and enhancements is an ongoing challenge. AES will be adapted or has been adapting to address new legislative changes and mandates toward enforcement and collection of export information each year. This year these legislative mandates included development of regulations for the mandatory filing of Shipper's Export Declaration (SED) information via AES for the Commerce Control List and U.S. Munitions List commodities and a full mandatory advance filing requirement with timeframes for each mode of transportation based on the Trade Act of 2002. Additionally, the Bureau of the Census has begun a complete rewrite of their regulations to reflect a move from collecting statistical information in a paper format to an electronic format. CBP continues to update and improve edits within AES, thus allowing for the more efficient enforcement of export regulations.

AES was developed as an automated reporting system for collecting export trade data from exporters, freight forwarders, carriers, and other authorized filers. AES collects data electronically from the SEDs and manifests, accounting for 87 percent of all non-Canadian exports, with an error rate of 6 percent. Through August of FY 2003, there were 8,794 filers submitting 18.7 million export transactions, compared to the FY 2002 figure of 19.1 million for the entire year. The projection for FY 2003 is 20.4 million transactions filed through AES. CBP continues to process approximately 170,000 paper SEDs per month.

CBP has realized a number of benefits as a result of AES. CBP has created enforcement modules, including the Bureau of Industry and Security module, vehicle exports module, vessel transportation manifest module, and the Department of State module, which allow decrementation against each permanent export license.

CBP has worked with the Department of State and the Department of Defense (DOD) to utilize the AES as a means to verify certain exports of military equipment against Department of State license exemptions. This cooperation has been expanded to include a complete revision of the Foreign Military Sales Program.

CBP continues to work on the AES Vessel Transportation Manifest Module. There are now nine carriers in the program with an additional ten carriers interested in participating. The electronic filing of vessel transportation data in AES relieves the trade and government of handling volumes of paper in the form of paper manifests and allows CBP to target high

risk shipments based on booking information submitted up to 72 hours prior to departure.

The regulations for the Trade Act of 2002 have been completed and submitted for publication in the Federal Register. These regulations establish timeframes for the electronic submission of SED information prior to loading of the cargo on the carrier. For shipments via vessel, the exporter must submit and receive confirmation of acceptance of the electronic data in the form of the Internal Transaction Number (ITN) 24 hours prior to departure; for air and rail shipments the requirement is 2 hours prior to departure, and for truck shipments the requirement is 1 hour prior to the shipment crossing the border.

Passenger Operations

Objectives in support of the border security goal in this area are to:

- Identify high-risk travelers in advance of arrival.
- Deploy selectivity techniques, technology, and tools for the physical inspection of travelers' baggage and vehicles in order to prevent terrorists and terrorist implements from entering the U.S.
- Intercept high-risk travelers while expediting low-risk travelers.
- Increase travelers' awareness of CBP requirements and its mission in order to achieve voluntary compliance.
- Apprehend those attempting to enter the U.S. illegally.
- Protect our agricultural and economic interest from harmful pests and disease.

Harmonizing Port Hours

Members of the Canadian/U.S. Shared Border Accord (SBA) Hardening Working Group met in Ottawa to discuss various adjustments related to several programs on the NB. Discussions were held regarding the possibility of mirroring hours of operations, for Canadian and U.S. ports, at several POEs along the NB, and how the newly installed gates would effect accessibility at the ports. The working group received approval to implement newly established mirrored hours of operation on the NB beginning September 2, 2003.

Analysis of Performance

Passenger volume for air, land, and sea in FY 2003 was approximately the same as in FY 2002. During FY 2003, 412.8 million passengers and pedestrians were processed by CBP. Of these arriving persons, 70.9 million (including 12 million cleared outside the U.S.) arrived via commercial airlines, 15 million arrived by ship, and 327 million arrived

at our land borders (this included pedestrians, bus, train, private occupancy vehicles, and truck passengers).

One of the challenges CBP faced in FY 2003 was the need to unify and integrate the work and workforce, to more effectively perform its priority mission, the prevention of terrorists and terrorist weapons from entering the U.S. Nowhere was unification more critical than at the over 300 POEs, where 18,000 CBP inspectors were joined together to carry out CBP's priority mission as well as their important traditional missions.

CBP began this effort with a Unified Airport Primary and Counter-Terrorism Secondary for U.S. Citizens and Permanent Residents at all airports to unify and integrate the work and workforce to more effectively perform the priority mission.

In keeping with "one face at the border," CBP initially implemented a unified primary with legacy Customs Inspectors working primary to process people coming into the country at eight international airports, and consolidated anti-terrorism secondary inspections with a counter-terrorism response (CTR) mechanism. The program allows CBP officers to focus on the same mission – counter-terrorism. All inspectors in the airport environment received primary training on worldwide terrorist threats and trends, fraudulent document detection, and the techniques for applying this knowledge in the primary inspection environment. The training enables the CBP officer to make specific referrals for further review.

The installation of hardening equipment at the northern and southern land borders have proceeded diligently in FY 2003. This is discussed in more detail later.



CBP immigration inspector reviews intelligence at the command post.

The US-VISIT Program is one of DHS's top five priorities. It was to implement several provisions of law that were enacted to create a comprehensive entry and exit system to improve how the U.S. manages foreign nationals who come into this country. CBP is unequivocally committed to advancing the goals of the US-VISIT Program and to make its personnel and systems available to achieve these goals.

During FY 2003, the Coalition Provisional Authority (CPA) called on CBP for help in reconstructing the immigration and customs processes the Iraqi nation needed to open its ports to international trade and travel.

The CBP team was responsible for staffing Iraq's air, land, and seaports of entry with professional law enforcement officers trained in both immigration and customs functions. This was no small order in a country with two seaports, two international airports, and 13 land POEs at Iraqi border crossings with adjacent nations. At many of these outposts, tribal leaders had assumed border functions.

Training materials were non-existent; the team had to create course syllabi, and devise a system to "train the trainers" who would ultimately be responsible for getting the new border organizations up and running. Translators were called into service and officers who had operated at the top of their classes under the Hussein Regime were now schooled in new subjects: Policing in a Democratic Society, Human Rights, and Ethics. Trainees were also introduced to the immigration and customs processes the government needed to facilitate the entry of people and cargo into the country – processes modeled on those used in the U.S.

Performance Goal 1: Develop and refine methods to select high-risk passengers in advance of arrival (target these passengers).

Performance Measure: Air carrier participation in the Advance Passenger Information System (APIS).

A critical priority for CBP in FY 2003 was the continued successful implementation of the Aviation and Transportation Security Act of 2001, which made 100 percent compliance with APIS mandatory for all commercial arriving air passengers and crew. CBP continues to receive 98 percent of all passengers and crew (including those pre-cleared) transmitted in APIS with accuracy sufficient for basic law enforcement queries.

In FY 2003, CBP implemented the Enhanced Border Security and Visa Reform Act of 2002, which expanded the APIS requirements to include sea carriers and outbound APIS transmissions. CBP capitalized on the success of the APIS



CBP was molded from the staff of several different agencies.

compliance strategy and effective risk management methodology implemented in FY 2002, and began to focus on the continuing development of APIS, which includes inbound and outbound APIS for commercial air carriers and sea carriers. This included the publication of a "Notice of Proposed Rulemaking" on the APIS requirements and a draft final regulation.

CBP will continue to explore the next generation of APIS with "Name by Name" query capability. This key law enforcement tool will allow a return message to air and sea carriers to "Board/Don't Board" the traveler in question. It will have the effect of pushing the U.S. zone of security out to the departure airport by preventing the boarding of those persons who may pose a security threat to the aircraft and by preventing the arrival of illegal aliens.

CBP continues to develop and expand the ATS/Passenger (ATS/P) application, the web-based computer system used to gather tactical intelligence on arriving passengers. All information is stored and available for analysis anywhere on the CBP Intranet via a web browser. ATS/P integrates various enforcement and commercial databases into a consolidated targeting platform. These databases include APIS, various federal law enforcement agency systems, and numerous airline reservation systems. The next release of ATS/P will include critical law enforcement tools such as expanded access to airline reservation systems, integration of rule scoring for Passenger Name Record (PNR) data, APIS Passenger Sweep rule scoring for anti-terrorism, and additional Treasury Enforcement Communication System (TECS) functionality.

The Transit Without Visa (TWOV) Program and the International-to-International (ITI) Program allow an alien to be transported in-transit through the U.S. to another foreign country without first obtaining a non-immigrant visa from the Department of State overseas. In FY 2002, CBP processed 381,065 TWOV passengers at 47 TWOV POEs and 680,873 ITI passengers at ten ITI POEs. On August 2, 2003, the Secretary of Homeland Security and the Assistant Secretary of State for Consular Affairs promulgated regulations suspending the TWOV and ITI transit programs based on credible intelligence concerning a specific threat of exploitation of the TWOV program by terrorist organizations. On September 22, 2003, the public comment period concerning the suspension of the TWOV and ITI programs expired. After review, CBP will determine whether the program will be reinstated in FY 2004.

Target: The APIS sufficiency rate should be 94 percent. APIS sufficiency is defined as the percent of data transmitted that is accurate enough to perform law enforcement queries.

Results: In FY 2003, 98 percent of the data received by CBP passed basic system edits.

Performance Goal 2: Deploy selectivity techniques, technology, and tools for the physical inspection of passenger baggage and vehicles to mitigate potentially high-risk and destructive situations (examine).

Performance Measure: Degree to which targeted examinations are superior to random examinations of passengers.

In recognition of current resource constraints and heightened security concerns in a post/September 11th environment, CBP is focusing on technological solutions to meet present and future border security needs. Deployment of these initiatives assists CBP in meeting both enforcement and customer service strategic goals by allowing for the pre-screening of passengers, the identification of high-risk travelers, and the facilitation of compliant travelers.

A successful example of deployed technology for the land border environment is the License Plate Readers (LPR) program. As passenger vehicle counts have increased, CBP has made a commitment to develop and use technology to enhance processing capabilities. LPR units automatically locate, read and communicate vehicle license plate data to the TECS and the National Crime Information Center (NCIC) for possible record matches. The primary inspectors receive instantaneous responses. The license plate information is subsequently archived in TECS for possible use at a later date. As of September 2003, CBP has installed 201 inbound and 50 outbound LPRs on the SB, and 104 inbound LPRs on the NB.



Canines are superb at detecting illicit substances in passenger luggage.

CBP continues to measure the effectiveness of its selection process by conducting the Compliance Measurement Examination (COMPEX) Program. COMPEX compares violations found during targeted enforcement exams with violations discovered during examinations of random samples of passengers. This comparison provides a measure of how well our selection programs are achieving the CBP objective of effective targeting.

In FY 2003, 12,891 criminal aliens were intercepted at CBP POEs by automatically querying Advance Passenger Information (API) into the FBI's National Crime Information Center Interstate Identification Index (NCIC III). Of this number, 441 had active warrants and 2,559 were aggravated felons. This compares to the first three years of the project when only two POEs were enabled with the API NCIC III system resulting in 6,512 criminal aliens being intercepted, of which 805 had active warrants and 2,067 were aggravated felons. Expansion of the API NCIC III system to all POEs was completed as of May 31, 2003. The project is a prime example of inter-agency law enforcement cooperation between CBP and the FBI.

The Customs Automated Operations System (CAOS) is a computer-based program designed to schedule periodic enforcement operations, such as lane scrambles and enforcement blitzes on a "no-notice" unpredictable basis. The CAOS generated lane swaps and mandatory vehicle inspections deter the possibility of internal integrity issues. The CAOS system allows CBP to record and analyze enforcement operations at the land border for the first time. CAOS is currently installed along the entire SB and installation is scheduled to begin along the NB in FY 2004.

CBP has certified pre-clearance operations for U.S. Armed Forces in Iraq and Afghanistan. Memoranda have been sent to the field, informing all POEs of the pre-cleared military flights. Additional guidance has been given to the field to hold all military cargo originating from Afghanistan for

possible contamination by pests and soils. This action has been imposed at the request of the USDA. CBP Agricultural Inspection (AI) inspectors will inspect the cargo before it continues to its final destination. CBP continues to send a CBP inspector overseas to act as an Adviser to the U.S. Armed Forces.

Target: The Targeting Efficiency Rate should be better than the COMPEX random targeting rate by multiples of 10.0 for air and 11.0 for land during FY 2003.

Results: For FY 2003, the air Targeting Efficiency Rate was 29.7 times better than COMPEX random targeting. In the land environment for passenger vehicle processing, the Targeting Efficiency Rate was 12.5 times better than COMPEX random targeting.

Performance Goal 3: Intercept high-risk passengers while facilitating the processing of low-risk passengers (intercept and expedite).

Performance Measure: Efficiency of personal search results. CBP has striven to improve the effectiveness of our selection, interception and examination performance by employing tools and technology designed to screen for potential violators while facilitating the clearance of compliant passengers. To maximize agency effectiveness, CBP has coordinated the deployment of technology with the institution of specialized training initiatives. CBP has developed and administers the following training programs for inspectional personnel:

The Passenger Analysis Unit (PAU) is a training course consisting of instruction in the ATS/P, flight analysis using Passenger Name Records, ResMON, browsing the Advanced Passenger Information System databases, post seizure analysis, and PAU simulations utilizing the newest targeting systems. The PAU training was recently updated to include additional course material on anti-terrorism. In order to meet classroom objectives, the PAU class is a full 7 days of training. There were seven PAU classes conducted in FY 2003.

Sea Passenger Analysis Training (SeaPAT) is a passenger-targeting program in the cruise ship environment. The program consists of hands-on classroom training, which covers Sea Carrier Reservation Systems, crewmember selection, outbound selection, post seizure analysis, the Combined Agency Border Intelligence Network (CABINET), trend analysis, pier surveillance, and ship search techniques. The SeaPAT course is located at the Miami Seaport and training is 8 full days. There were three SeaPAT classes conducted in FY 2003. For FY 2004, the SeaPAT training will be updated to include material related to anti-terrorism.

Passenger Enforcement Rover Training (PERT) was developed in 1997 as a joint collaborative effort between inspectors from the Miami and JFK International Airports. The historical objective of the program was to provide narcotic interdiction training to inspectors assigned to other airports of entry. The course now focuses on anti-terrorism. Classes entail motivation, observational skills, selection, and identification techniques, interviewing, examination, courtroom testimony and professionalism. PERT classes begin with 1 day of classroom and 5 days of roving, mentored training. There were 16 PERT classes and four on-site visits conducted in FY 2003.

During FY 2003, CBP developed and implemented a Counter-Terrorism Response Training (CTRT) course. This training is a 4-hour course that covers procedures to be followed by secondary inspectors when a terrorist referral is made from an airport primary. The goal of the course is to introduce procedures that cover all aspects of processing to include: escorting the individual to a secure secondary inspection area, interviewing, baggage examination, and additional analytical resources. The course reinforces the relationship of secondary inspectors with analytical resources, such as the PAU, PERT, and the NTC. The overall purpose of the course is to ensure all legacy components of CBP are aware of their responsibilities regarding the processing of individuals referred for examination as possible terrorists.

The Unified Primary Working Group identified the first eight unified primary airports to receive this training. CTRT was delivered to these airports at a train-the-trainer session on August 28, 2003. The remaining airports identified by the work group will receive CTRT training from trainers who have received their instruction in a train-the-trainer session conducted at CBP Headquarters on October 7, 2003. Future CTRT classes will be conducted at the local level on an as-needed basis.



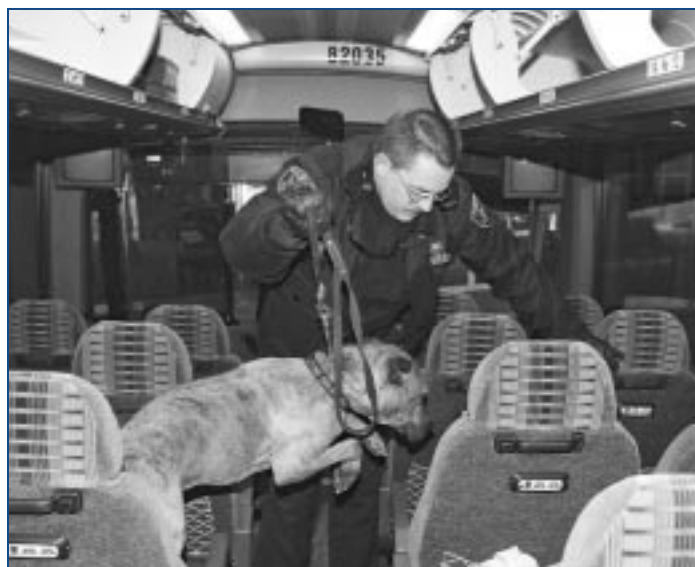
CBP inspector checking car at border.

In FY 2003, CBP continued the Outbound Currency Interdiction Training (OCIT). This training is designed to provide inspectors with an in-depth understanding of currency interdiction, giving inspectors the ability to detect possible hazards associated with illicit funds destined for terrorist countries and activities. OCIT was recently updated to include additional course material related to anti-terrorism. In FY 2003, a total of 56 CBP inspectors were trained in OCIT. In FY 2003, OFO, in cooperation with the CBP Academy at FLETC, the Arizona Field Office, and the Port of Nogales, conducted five Land Border Outbound Training classes in Nogales, Arizona. The Land Border-Outbound Training Course is designed to benefit inspectors from both the northern and southern land borders. Training topics include CBP outbound laws, currency interdiction, stolen vehicles, EXODUS, targeting, and behavioral stress analysis. In addition to classroom presentations, the course includes relevant practical exercises in AES, passenger and cargo outbound operations, compartments and concealment, stolen vehicles, tools and technology, and rail operations.

In FY 2003, OTD, in conjunction with OFO, developed a training course entitled “Making Primary Inspection Decisions, Cross Designation Training” and produced it on a CD-ROM. This training is one of the first steps in ensuring that all CBP frontline personnel learn important technical information about identifying and stopping terrorists from entering our country and have important reference material available when needed. Copies of the CD-ROM were delivered in late May and early June 2003, to all ports and field locations. The Port Directors were charged with distributing the CD-ROMs to all of the Inspectors and Canine Enforcement Officers (CEOs) under their supervision who are directly engaged in examining people entering the U.S. and its territories. The training audience also included such employees as Adjudication officers and others who may periodically perform inspectional duties.

CBP continues to develop Dedicated Commuter Lanes (DCLs), which include the SENTRI on the SB and NEXUS on the NB (both discussed earlier in our discussion of Preventing Terrorism). SENTRI is currently operational at three locations. There are approximately 60,000 participants for all three locations. CBP and Mexican officials meet regularly to discuss the expansion of SENTRI along the U.S./Mexico Border as part of the U.S./Mexico Border Partnership.

In August 2002, the legacy INS conducted a one-to-one facial recognition test in the pedestrian lanes at the Port of San Ysidro, California. The test ran for a one-week interval



Canines are an important part of CBP's inspection process.

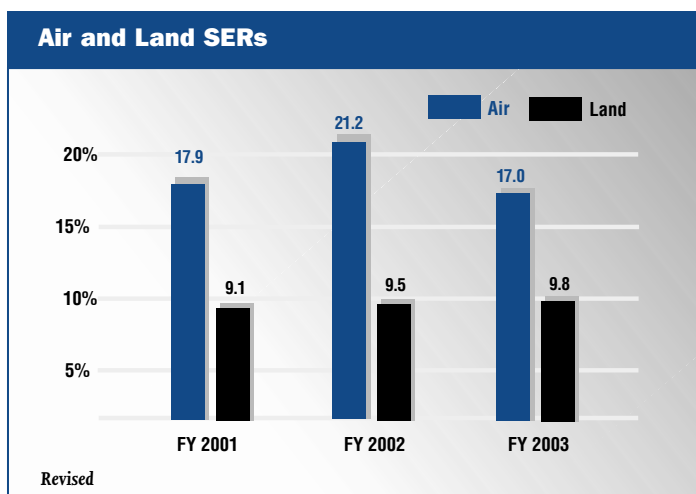
and utilized 34 CBP employees as the test group. All persons in the test group were issued an identifying proximity card, which was linked to their facial recognition file. The facial recognition test results were very successful in identifying all enrolled persons linked to a proximity card. The facial recognition technology was able to identify a person in less than three seconds and could not be tricked when test subjects intentionally switched proximity cards. Based on these test results, CBP is using facial recognition as the biometric identifier for the SENTRI pedestrian lane in San Ysidro. CBP has begun working with the SENTRI contractor to begin installation of the SENTRI pedestrian lane.

Due to the success of the 2001 NEXUS pilot project at Port Huron, MI, eight additional sites have been opened as of October 1, 2003. Five additional sites will be opened by January 1, 2004. Additional sites have been surveyed and will be opened in 2004 after the Coordinating Committee approves them.

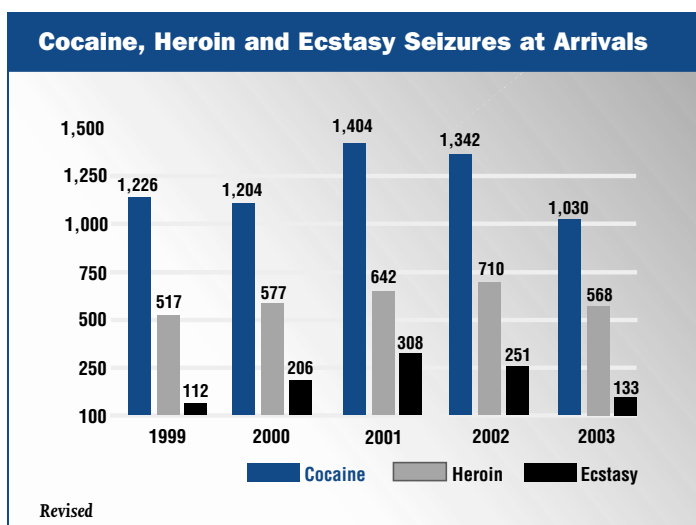
As discussed earlier, the FAST enrollment program expedites the cargo/trade process. To provide more detail on the operation of the program, it requires all truck drivers who wish to be identified as a low-risk traveler to pass a complete background check and law enforcement interview. Once a truck driver successfully passes the background check, he or she is identified as a low-risk traveler and is issued a FAST radio frequency identification card (RFID). The FAST RFID card must be presented each time the truck driver crosses the border in order to show he or she is approved to use the FAST lanes. CBP officers staff all FAST primary truck lanes; FAST truck drivers are subject to the same level of inspection as all other persons crossing the land border in a vehicle.

Target: In FY 2003, achieve a positive personal search rate (SER) of 23.1 percent for air and 10.4 percent for land.

Results: While CBP did not meet the FY 2003 benchmarks, it implemented a new policy to maintain the air and land SERs at the target levels and, at the same time, increase the number of positive personal searches overall by 15 percent.



The following figures show the trends in total cocaine, heroin, and ecstasy seizures associated with **arriving** air, land, and sea travelers:



Joint Passenger Analytical Unit (JPAU)

The Joint Passenger Analytical Unit (JPAU) was created as part of the SBA between the U.S. and Canada. The JPAU was designed to have members of U.S. and Canadian passenger analytical units working together as one combined targeting unit. Two JPAUs were initiated (Miami and Vancouver) in October 2002. This pilot program was to run for six months, at which time a review would be performed to determine their effectiveness. The review of the program showed that

both JPAUs were effective in finding high risk travelers, but it was determined that their functions could be performed with the coordination of efforts between CBP's NTC and the Canadian National Center of Excellence (NCE). The JPAU programs have been extended until the NCE is established and working with the NTC.

National Security Entry Exit Registration System (NSEERS)

On September 11, 2002, the legacy INS began implementation of NSEERS or the Special Alien Registration Program. The purpose of this program is to ensure that aliens, whose presence in the U.S. requires closer monitoring in the national security or law enforcement interests of the U.S., provide specific information at regular intervals to verify compliance with their visa and admission, and to verify that they depart the U.S. at the end of their authorized stay.

At POEs, biographic and biometric information is captured from the applicant and all of this information is stored in the Enforcement Case Tracking System/Automated Biometric Identification System (ENFORCE/IDENT). This database can be queried in the future and the user will be able to see all information captured on the subject. Special alien registration allows DHS to track the arrival, continued stay, and departure of aliens who have been determined to warrant additional monitoring in the interest of national security.

ENFORCE

ENFORCE is an integrated system that supports enforcement case processing and management functions, storing data in a single data repository. Since the inception of ENFORCE in 1998, the Border Patrol has been processing all cases through the Enforcement Apprehension Booking Module (EABM) in ENFORCE. The EABM in ENFORCE is being modified to include immigration adverse action processing capabilities for POEs. This version will be deployed nationwide in FY 2004.

All biographical data collected on those applicants who are subject to NSEERS is captured and stored in ENFORCE. The biometrics are captured and stored in the IDENT. The Bureau of Immigration and Customs Enforcement as well as the Bureau of Citizenship and Immigration Services utilize ENFORCE for processing.

IDENT

The IDENT is a computerized system that permits the capture of biometric information. The system will search and compare information captured against information stored in the database of previously submitted fingerprint and photograph images. The system searches the Recidivist Database, which contains records of persons who attempt to enter the U.S. in

violation of the Immigration and Nationality Act. It also searches data stored in the Lookout Database, which contains active wants and warrants, aggravated felons, and those aliens previously removed. IDENT also allows enrollment of a subject into the Recidivist database to use in future encounters.

The IDENT and the Integrated Automated Fingerprint Identification System (IDENT/IAFIS)

The IDENT/IAFIS Program was established to integrate the IDENT database with FBI Criminal Master File (CMF) known as IAFIS. These systems have been integrated into one system called IDENT/IAFIS.

The Department of Justice (DOJ) was mandated by Congress to develop a plan for the integration of IDENT and IAFIS databases and fingerprint systems. DOJ conducted a criminality study that indicated that IAFIS checks, in addition to IDENT searches, resulted in an increase of identifying criminal aliens by 8.5 percent. DOJ is currently preparing an initial report for Congress. DOJ will report to Congress annually for the next two years to evaluate the program and determine the operational impacts on downstream agencies of the POEs and Border Patrol stations using IDENT/IAFIS.

A full set of fingerprints is captured on a subject and the prints are sent simultaneously to both the IDENT and IAFIS databases. IDENT searches the lookout database that contains active wants and warrants and the recidivist database that contains subjects previously encountered by CBP. IAFIS searches the CMF that contains over 48 million criminal records. The integrated version of IDENT/IAFIS is now deployed to 27 BP stations and 46 POEs. IDENT/IAFIS is an invaluable enforcement tool used at POEs and deployment on a national level would increase CBP's capability to identify those persons whose entry is detrimental to the U.S.

Non-immigrant Visa DataShare

Throughout FY 2003, the DataShare team focused on improving training at POEs, and expanding the number of ports-of-entry that could use this capability to process new immigrants. As a result, this year brought a significant increase in the number of permanent residents admitted by CBP officers at ports-of-entry using DataShare functions. During FY 2003, 165,931 new permanent residents were processed at ports-of-entry using DataShare. In the previous FY, only 87,171 were admitted using DataShare. This represents a 190 percent increase in DataShare use in only one year. In addition, the DataShare team completed various enhancements or projects during FY 2003.

Performance Goal 4: Maximize passengers' voluntary compliance with Federal laws and regulations by increasing their awareness of CBP requirements (informed compliance).

Performance Measure: Compliance rate for arriving air and land passengers.

By improving the knowledge of both the frequent and infrequent traveler, CBP believes the number of inadvertent violations can be significantly reduced. Communication methods, such as posting information on the Internet, loop radio broadcasts at land borders, videos providing airline information, and electronic information booths, allow inspectors to focus more fully on serious violators. CBP has established Passenger Service Representative (PSR) positions at key airports of entry to assist travelers with CBP problems and to manage local complaints. We have placed informational signage and supplied brochures at all inspectional facilities, including the distribution of uniform PSR posters to all locations with PSRs.

CBP has built upon the comment card program by developing and implementing a new automated version. The use of this new technology will allow for a more comprehensive analysis of traveler feedback and will facilitate the dissemination of the information to managers in field locations.

CBP issued guidance to field personnel, advising them of Severe Acute Respiratory Syndrome and provided them with additional guidance from the World Health Organization and the Centers for Disease Control. CBP continues to work with the Department of Health and Human Services in the event a resurgence of SARS occurs.

Target: Achieve a compliance rate of 99.9 percent for all arriving air and all arriving land passengers in FY 2003.

Results: The compliance rate for arriving air passengers in FY 2003 was 99.7 percent, or very slightly less than the target for the year. The deviation from the target goal is not significant and CBP considers this goal for the year met. The actual compliance rate for arriving land passengers was 99.86 percent, an increase over FY 2002. The target goal for land passengers was also met.

Improving Security on the Northern Border

Overview:

The Northern Border Security Deployment Project (NBSDP) goal is to provide coverage at the non-24 hour POEs through a 24-hour/day monitored surveillance system and improve the security infrastructure along the border to combat terrorism.

Objectives:

The six elements to the NBSDP will provide a single remote surveillance and improved security system once integrated:

- Integration of a barrier/gate/bollard entry restriction or denial system.
- Provision of security lighting and other security and detection devices.
- Provision of appropriate signage inside the POE in accordance with the U.S. Land Border POE Design Guide Standards.
- Connection to high-speed communications to the POEs.
- Establishment of a Customs Area Security Center (CASC) at the NTC for monitoring capabilities of national incidents with regard to Homeland Security.
- Installation of an intrusion detection system.

The video surveillance system captures video images in a digital format and saves those images on a computer hard drive, making it easy to quickly retrieve a digital record of any incident at the POE; these records are admissible in court testimony.

Challenges:

The obstacle that most impacted this project was the inability to hold the vendor accountable for the delay of deliverables that impacted the installation schedules. To avoid further delays the statement of work is being rewritten.

Progress in FY 2003:

For FY 2003, the installation of hardening equipment at our land borders has proceeded diligently. CBP has completed the installation of gates, signs, lights, and remote video surveillance at 22 POEs (18 on the NB and four on the SB), and three Customs Area Security Centers.

Since FY 2001, a total of 42 POEs (38 on the NB and four on the SB) and five Customs Area Security Centers have been completed.

In FY 2003, NBSDP recently enhanced the video surveillance system with the addition of an intrusion detection system. This system is being installed at this time and it will provide a superior performance on alerting intrusions at the non-24 hour POEs. Based on the specific needs for each location, filters on the software are set and rules are entered to reduce alerts from movements familiar to a specific location. Examples are snow falling on the ground or a bird flying over a specified perimeter.

For FY 2004, a list consisting of two CASCs and 37 POEs (30 non-24-hour POEs and seven 24-hour POEs) have been submitted to the contractor to submit a proposed schedule for equipment installation this option year. The focus on our transition to CBP has been taken into consideration from the beginning of this project. A position description (PD) is being created for the staffing of the 24-hour CASC. With the transition to CBP, the PD will provide opportunities for the newly created CBP Officer position.

Since the start of this project, a total of 42 POEs and five CASCs have been hardened averting staff increases for the non-24 hour POEs. The staffing level at these locations has decreased from past years through the installation of the remote video surveillance equipment. The dollar figures below reflect the travel funds used to send inspectors to the NB in order to address increased alert level requirements and minimum staffing levels. They point out the reduction in costs achieved by installation of the equipment.

FY 2001: \$244,000

FY 2002: \$4.38 million

FY 2003: \$2.1 million through April 26, 2003

One Face At the Border

Goal: Increase the security of our homeland by completing the merger and unification of all U.S. border agencies.

“The new department will control our borders...but there are three agencies on the border right now...They wear different uniforms, they have different strategies ... There is a better way to enforce our border here in America.”

—President George W. Bush

“When you come into the United States, multiple faces of the Federal Government meet you. And I think we ought to have...one face at the border.”

—Governor Thomas J. Ridge

On March 1, 2003, CBP was formed with the significant goal of creating “one face at the border.” With 38,700 employees from three departments of government, the establishment of CBP represents a merger of historic proportions and significant challenges.

The concept of “one face at the border” is integral to CBP’s priority mission – detecting and preventing terrorists and terrorist weapons from entering the U.S., while facilitating the orderly and efficient flow of legitimate trade and people. The establishment of CBP within DHS means there is now one agency responsible for securing our borders and protecting our Nation at and between the POEs. One face at the border represents an integrated cohesive team enforcing and upholding our country’s laws and securing our borders.

Creating one face at the border necessitates that we unify and integrate our operations and our workforce in order to more effectively perform the priority mission of CBP. Concurrent with the formation of CBP, we began the unification process. A unified chain of command was immediately established and permanent leadership appointments have been made. Anti-terrorism training has been provided to frontline employees and CBP has initiated unified practices including joint passenger analysis and cargo targeting. In addition, CBP has been implementing unified primary inspections

and counter-terrorism secondary teams at our Nation’s airports. Two new positions have been established to unify our workforce and a new uniform, patch and badge have been created, so that our operations and our image present one face at the border.

Nowhere is unification more critical than at the POEs, where 18,000 Customs, Immigration, and Agriculture inspectors joined together to carry out CBP’s priority mission as well as its traditional missions. To unify the inspector workforce at the POEs in support of CBP’s mission, CBP established a new frontline officer position – the CBP Officer. The CBP Officer will provide the American public, travelers, and the international trade community with one face at the border. The CBP Officer will unify and integrate the work of approximately 18,000 inspectors who came together from Customs, INS, and USDA when CBP was created. The result will be “one-stop processing” and maximized efficiency for travelers and members of the trade.

The CBP Officer will perform the critical, priority mission of preventing terrorists and terrorist weapons from entering the U.S., while facilitating the flow of legitimate trade and travel. In addition, building on the knowledge and skills of the consolidated workforce, the CBP Officer will continue to carry out the important traditional missions that were joined

together at the ports, including the interdiction of illegal drugs and other contraband, enforcing trade and immigration laws, apprehension of those attempting to enter the U.S. illegally, and protection of U.S. agricultural and economic interests from harmful pests and diseases.

In addition, CBP established a second new position, the CBP Agriculture Specialist, to play a critical role in the inspection of agricultural and related goods entering the U.S. Responsibility for these inspectional functions was transferred from USDA to CBP when it was formed. The CBP Agriculture Specialist will help protect the American public from agro-terrorism and bio-terrorism, while safeguarding U.S. agricultural and economic interests from the unintentional introduction of harmful pests and diseases.

Implementation of the new CBP Officer and CBP Agriculture Specialist positions began in September 2003 and will continue through fiscal year 2004. Training is the foundation of the effort to integrate people, processes, training and technologies from three federal agencies. New CBP Officers will complete a rigorous, multi-layered and comprehensive training program. And, the current workforce will receive extensive cross training in the work of the new Officer that they have not performed in the past.

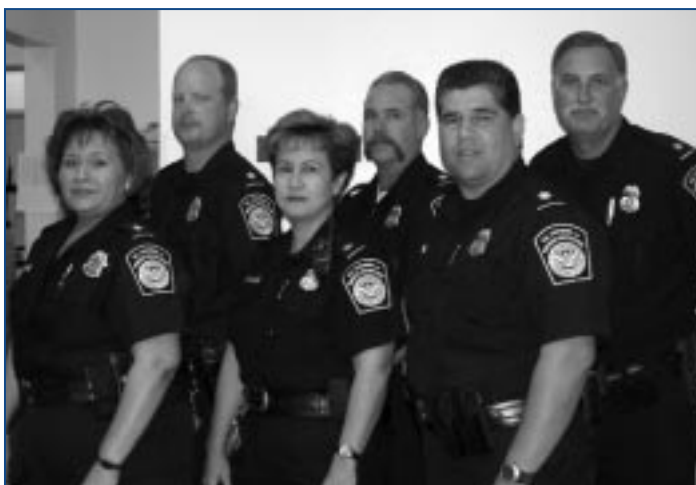
As part of the unification process, CBP's professional inspectional workforce will now have a single uniform in which to carry out its mission. The new CBP inspectional uniform will present a professional, law enforcement image to the public and will remind all who wear the uniform of the proud heritage each legacy component brings to the new CBP. The uniform will also reflect CBP's position within DHS as the Nation's first line of defense against terrorism.



CBP staff now perform integrated customs and agricultural inspections.

In addition to the new uniform, a new CBP uniform patch and badge have been selected to further bond all of the legacy components together in CBP's critical mission. The patch and badge both include the DHS seal and represent the critical and central role that CBP and its officers play in national security. CBP inspectional and Border Patrol employees will wear the new patch and badge. The new inspectional uniforms, patch and badge will be implemented over a period of time throughout fiscal year 2004. The Border Patrol uniform will not change from the current version, however, the uniform will bear the muted color version of the new CBP uniform patch.

***CBP is "one face at the border"—
our Nation's first line of defense against terrorism.***



One face at the border means an integrated workforce.

Strengthening Control of the U.S. Borders

Goal: Strengthen national security between the POEs to prevent the illegal entry of terrorists, terrorist weapons, contraband, and illegal aliens into the U.S.

Role of the U.S. Border Patrol

History and Background

On March 3, 2003, the flag of the U.S. Border Patrol was formally transferred to CBP in DHS. Commissioner Robert C. Bonner officially welcomed the Office of Border Patrol workforce into CBP, and it opened a new chapter in its proud history.

The Border Patrol was established in 1924 within the Bureau of Immigration. The initial force numbered 450 Patrol Inspectors, the yearly budget was \$1 million, and Patrol Inspectors earned \$1,300 yearly and each patrolman furnished his own horse! During the Border Patrol's 78-year history, its mission has been to patrol the border between official POEs to deter, detect, and prevent the illegal entry of aliens and the smuggling of contraband into the U.S. The Border Patrol has a historic and firm commitment to enhance border security. Its mission is fraught with danger, as illustrated by the fact that 92 agents and pilots have lost their lives in the line of duty since the agency was established.

Today, the mission of the CBP Border Patrol has never been more important. Over 11,000 men and women of the Border Patrol continue to serve our country with honor, pride and professionalism. Although the CBP Border Patrol's mission has remained relatively the same in this post-September 11th era, there is a greater emphasis on detecting and interdicting terrorists and weapons of terror. The CBP Border Patrol's function has been, and will continue to be, critical to our Nation's security; especially with regard to enforcing the laws of this country against those who seek to bring harm to the American people and our way of life.

Border Patrol National Strategic Plan

In 1994, the U.S. Border Patrol developed and began implementing a National Strategic Plan designed to gain and maintain control of our Nation's borders. The National Strategic Plan is the basis for a four-phased, multi-year approach to the deployment of new resources along the U.S. borders, initially concentrating on areas of greatest illegal entry. The four-phased National Strategic Plan relies upon an appropriate balance of personnel, aircraft, equipment, technology and tactical infrastructure being deployed into areas experiencing the highest level of illegal activity. The National Strategic Plan has proven to be highly successful in areas where it has been implemented. In sectors where the strategy has been initiated, a significant reduction in alien apprehensions has been achieved because the desired deterrent effect has been realized and fewer people have decided to cross into the U.S. illegally. Coupled with a greater operational effectiveness, measured by an increased likelihood of apprehension for those individuals that do attempt to cross illegally, the deterrence focus has significantly reduced illegal cross-border traffic. The CBP Border Patrol Strategic Plan has a national focus of "prevention through deterrence" as a means to restrict illegal traffic and encourage legal entry. Deterrence is defined as raising the risk of apprehension so high that those contemplating illegal entry will decide that their efforts will not result in a successful entry. The four-

phased approach builds up resources along the entire SWB as well as the NB and coastal areas of the U.S. Areas with the highest concentration of illegal entry are given the highest priority. The primary indicator of successful deterrence is a significant reduction in entry attempts, followed by a leveling off of those attempts. Optimum deterrence is defined as the level at which applying more Border Patrol agents and resources would not yield a significant gain in arrests/deterrence. This is a critical point in the strategy, as it would make little sense to try to reach essentially zero illegal entry attempts in one location while there are literally thousands of such attempts in another. Through sufficient staffing in recent years, the Border Patrol has profiled and predicted the trend pattern to reach optimum deterrence. After several years of staffing increases, a peak is reached in staffing levels and arrests, followed by a reduction in illegal entry attempts (deterrence), culminating in a leveling off of both resources and arrests (optimum deterrence). It can take up to 6-8 years to reach optimum deterrence provided there are sufficient resources.

Although an eventual reduction in arrests is a primary indicator of illegal entry attempts (and therefore deterrence), other critical indicators include: a decrease in border related crime, a decrease in recidivism, shifting of illegal activity to non-traditional points of entry, and through non-traditional methods, an increase in smuggling fees, an increase in property values, and commercial and public development along the border. Each of these factors is part of a comprehensive analysis conducted for each area. The effectiveness of the CBP Border Patrol's National Strategic Plan is evidenced by the significant changes in illegal entry attempts in the San Diego, California, El Paso and Brownsville, Texas, and the Nogales, Arizona, border areas. The ultimate impact is the increase in quality of life in these areas.

Since its implementation in 1994, the Border Patrol's National Strategic Plan has been the basis for a multi-year, multi-phased approach for the deployment of additional personnel and resources for the purpose of increasing control of our Nation's borders.

- Phase I - San Diego and El Paso
- Phase II - South Texas, Arizona, and NB
- Phase III - Remainder of the SWB and Coastal Areas

The objective of the current border enforcement strategy is to prevent illegal entries, whether by terrorists, drug smugglers, or illegal aliens, by instituting a sufficiently recognizable level of deterrence along the border and by apprehending those who nevertheless seek to cross into the U.S. illegally.



Mobility is important for Border Patrol operations.

Our basic strategy is to apply increased levels of CBP Border Patrol resources – technology, aircraft, tactical infrastructure, and personnel – to increase the level of operational effectiveness until the likelihood of apprehension is high enough to be an effective deterrent, thereby creating acceptable border-wide control. The goal is to create a level of deterrence that conveys an absolute certainty of detection and apprehension by the Border Patrol. Put another way, the goal is to achieve “optimum deterrence.”

The CBP Border Patrol is currently in Phase II of its three-phased plan, having fully implemented Phase I. Along the SWB, the strategy has thus far concentrated Border Patrol resources into those specific geographic areas experiencing the highest level of illegal activity. The key to the successful implementation of this strategy in particular locations has been the deployment of the proper balance of personnel, equipment, technology, and infrastructure into these areas.

The CBP Border Patrol is now nine years into its initial strategy that has concentrated on Phases I and II on the SWB. During this time, the Border Patrol has grown from approximately 5,000 agents with a budget of \$362 million to over 11,000 agents with an annual budget in excess of \$1.4 billion. This

infusion of resources has had a significant effect on illegal border activity, and has directly impacted our overall homeland security by reducing entry of illegal aliens, drug smugglers, and potential vulnerabilities that could be exploited by terrorists. A consistent stream of funding for technology and equipment is crucial if the levels of control that have been established along the borders are to be maintained and further control of the borders are to be realized.

With respect to Phase II, the current enforcement focus is the State of Arizona. Since the development and inception of the National Strategic Plan in 1994, agent staffing levels and alien apprehensions in the Tucson Sector have increased dramatically. This increase is due in part to the levels of control that have been realized in El Paso, San Diego, and south Texas. Even with the increased number of personnel that have been assigned to the Tucson Sector, it is still necessary to provide additional support in the form of detailed agents from other operational areas to seek to gain control over this sector.

Phase III of the strategy calls for a focus on the remainder of the SWB, which will initially concentrate on the Del Rio and Laredo Sectors in south Texas and then on the Yuma and El Centro Sectors in the western U.S. Phase III also includes the coastal areas of the U.S.

Given differences in the nature and extent of the threat on the NB and SWB, as well as differences in the size and terrain of the borders, the proper mix of resources needed to meet our strategic objectives and implement the CBP Border Patrol National Strategic Plan varies. On the SWB, the Border Patrol emphasizes personnel, equipment, technology, and tactical infrastructure, in that order. On the NB, it relies on a different mix of activities and resources: intelligence, liaison, technology, equipment, and personnel. The following sections illustrate where and why these resources are needed in order to continue implementing the Border Patrol National Strategic Plan and to gain control over increasing portions of our land border.

Success of the National Strategy

Where implemented with the appropriate balance of resources, the national strategy has succeeded as is demonstrated by the results of the operations listed below:

In 1993, Operation Hold-the-Line commenced in El Paso, Texas. For FY 1993, alien apprehensions were at an all time high of 285,781. As a result of the increased enforcement presence (over 500 agents, lights, fencing, roads, vehicle barriers, 22 Remote Video Surveillance (RVS) cameras, and 3



The Border Patrol has responsibility to monitor all potential points of entry.

aircraft), alien apprehensions were reduced to 94,154 by FY 2002 because fewer illegal aliens have been attempting to cross in this area. This represents a 67 percent decline. According to the Federal Bureau of Investigation's published crime statistics, El Paso has experienced a 35.4 percent reduction in overall reported criminal activity between 1992 and 2002 as well.

In San Diego, during FY 1992, alien apprehensions totaled 569,587. As a result of Operation Gatekeeper, which began in 1994, alien apprehensions have been reduced to 100,681 during FY 2002, which represents a decrease of 82 percent. This is a 28-year low in alien apprehension levels. Over the duration of this operation, the San Diego Sector has received in support over 1,200 agents, 12 miles of permanent stadium-type lighting, 14 miles of primary fencing, approximately 10 miles of secondary fencing, and 5 aircraft making Operation Gatekeeper a success.

In McAllen Sector, alien apprehensions had risen to the high of 243,793 in FY 1997. Since its inception in FY 1997, Operation Rio Grande has reduced successfully alien apprehensions down to 89,927 (a 63 percent decline). In support of this operation, the McAllen Sector has received over 1,000 agents, permanent lighting, all-weather roads, 31 RVS cameras, and 2 aircraft.

Even in the Tucson Sector, where the strategy has been partially implemented, the CBP is seeing positive results. In FY 1993, alien apprehensions in the Tucson Sector were 92,639. With the successful implementation of the national strategy in the above areas, the Tucson Sector became the next focal point for illegal entry into the U.S. Apprehensions steadily climbed to the FY 2000 high of 616,346. The resources and personnel dedicated to the Tucson Sector have increased significantly with the inception of Operation Safeguard in

1997 (over 1,000 agents, 32 RVS cameras, 6 aircraft, approximately 30 miles of border fence, and improved border access roads). The increase in agent staffing and resources has reduced alien apprehensions down to 333,648 in FY 2002, which represents a 46 percent decrease in apprehended aliens. This is still not an optimum level of deterrence. If apprehensions are to be further reduced and an acceptable level of control achieved, additional personnel and resources are still required.

Overall, the CBP Border Patrol is striving to make more significant gains in its level of control at the border. In FY 2001, the Border Patrol arrested 1.26 million aliens on all borders, which represented a 24 percent decline from the previous year of 1.67 million arrests. In FY 2002, 955,310 aliens were arrested, which represented a 25 percent decrease from FY 2001. Crime rates have decreased significantly in areas along the SWB where Border Patrol presence has increased. This added benefit in the increase in overall quality of life can be attributed to the law enforcement presence provided by the Border Patrol in areas such as El Paso, San Diego, McAllen, Tucson, Del Rio, and Laredo. Given this track record of proven results where the national strategy is implemented with adequate resources, CBP expects to see similar results in Tucson, Del Rio, and Laredo with the receipt of funding for FY 2003 and outyears. Similarly, CBP expects to see significant gains in its ability to monitor and respond to intrusions on the NB as well.

Northern Border Enforcement Strategy

In the wake of September 11, 2001, deficiencies in personnel and resources along the NB have received increased attention. Concerns over our Nation's vulnerability to the illegal entry of terrorists and their weapons of mass destruction across our relatively unprotected NB has caused the CBP to significantly



The Border Patrol on horseback reminds us of a long and proud tradition in guarding the Nation's borders.

increase our enforcement presence in this area. Therefore, the CBP Border Patrol is concurrently conducting enforcement operations in both Phase II and Phase III of its National Border Patrol Strategy.

Securing the NB has traditionally presented many unique enforcement challenges for the Border Patrol. Our shared border with Canada is approximately 4,000 miles long and is the longest non-militarized undefended border in the world. In the past, this vast expanse and rough terrain coupled with an inadequate number of personnel and a lack of resources and infrastructure has significantly limited the Border Patrol's deterrent effect upon illegal activity.

CBP Border Patrol Performance results - Fiscal years 1999-2003

	FY 99	FY 00	FY 01	FY 02	FY 03
Total Apprehensions (000)	1,579	1,676	1,266	955	932
Illegal Narcotics Seizures					
Marijuana (lbs.)	1,170,941	1,316,819	1,166,764	1,234,329	1,350,809
Cocaine (lbs.)	29,672	23,203	18,535	14,334	14,892
Heroin (oz.)	771	1,209	1,491	2,516	3,852
Marijuana (\$000)	942,669	1,070,177	928,314	1,004,532	1,088,518
Cocaine (\$000)	955,385	732,971	557,698	457,745	473,187
Heroin (\$000)	6,374	13,577	19,568	13,107	21,297

The original concept of our NB strategy is built on interagency and international cooperation and coordination, effective technology development and deployment, and innovative resource allocation. The rationale for the different emphasis between the two border areas is based upon historical volume in illegal cross-border activity, level of economic parity, and cooperation with foreign law enforcement. Other factors include geography, weather, proximity to urban or metropolitan areas, and infrastructure.

The enforcement strategy for the SWB directly corresponds to the quantity of alien apprehensions. As previously stated, resources are deployed directly into the areas experiencing the highest level of illegal activity, i.e., our SWB enforcement efforts are “reactive” in nature. If alien entry patterns shift into another geographic area, the Border Patrol will shift its enforcement focus to counter this new threat. Historically, when compared to the SWB, the NB is responsible for relatively few alien apprehensions.

The current NB Strategy encompasses interagency and international cooperation and coordination, effective technology development and deployment, and innovative resource allocation. The geographic and environmental conditions found on the NB have led to the historic economic and cultural interdependence of the United States and Canada. In light of the long-standing cooperation and economic interdependency, the CBP Border Patrol has conducted activities along the NB with significantly fewer resources than were dedicated to the SWB. For these reasons, the Border Patrol cannot simply replicate the same enforcement strategy implemented on the SWB.

The NB Strategy relies upon maximizing existing resources in order to strengthen control of the border. As is the case with the SWB, the NB Strategy also requires the proper balance of personnel, equipment, technology and infrastructure. However, a different balance of these resources is required.

Phases of the NB Strategy:

- The initial phase focuses upon the expansion of existing liaison efforts and increased intelligence sharing with other Federal, state and local law enforcement agencies, as well as our counterparts within the Canadian Government.
- The second phase concentrates on the deployment of enforcement related technology (cameras, sensors, and other equipment) along the border to act as a force multiplier, thereby increasing the area that can be adequately covered by currently available manpower.



Border Patrol canines are trained to detect illegal immigrants and contraband.

- The third emphasis of the strategy calls for the deployment of additional personnel into our NB sectors. As mentioned, subsequent to September 11, 2001, the Border Patrol accelerated into this phase by redeploying agents from the SWB to the NB.

The NB strategy requires increasing our national security by augmenting enforcement resources present along the NB. Reducing our vulnerability to the entry of terrorists, illegal aliens and drugs by increasing the personnel and resources dedicated to the NB is the key to the successful implementation of this strategy. In doing this, the CBP as a whole, and the Border Patrol within CBP, seek to be “proactive” in its enforcement strategy. As with the SWB, the proper balance in the deployment of personnel, equipment, technology, and infrastructure is critical.

However, along the NB, force-multiplying technology (RVS cameras and sensors), aircraft, and tactical infrastructure play a much larger role when compared to the SWB. These force-multipliers are essential as it would be virtually impossible to assign enough personnel along the vast NB to achieve the same “forward deployment” deterrence-based posture that is in use along the SWB.

Technology

An effective border enforcement strategy requires a mixture of personnel and resources, as well as a wide variety of enforcement activities, to be effective. The required resources (personnel, aircraft, equipment, technology, and tactical infrastructure) of a border enforcement system must be deployed in a balanced manner to complement the proactive strategy. Consideration must be given to the level of alien activity when determining the number of agents to be deployed in a particular area. If alien traffic is deemed to be low, then fewer agents, coupled with a mix of technology and infrastructure, can be deployed to that area. Resources that are deployed to augment agents in support of their mission are referred to as “force-multipliers.” The deployment of force-multipliers allows fewer agents to adequately patrol and monitor the same geographic area of the border.

Remote video surveillance (RVS) systems and sensors are another valuable “force-multiplier” that maximizes the CBP Border Patrol’s deterrent and proactive enforcement capability. Remotely monitored surveillance cameras, mobile night vision scopes, and sensors strategically placed along the border allow the Border Patrol to deploy fewer personnel into a specific area and still maintain the ability to detect and respond to intrusions.

The key piece of CBP Border Patrol technology is the Integrated Surveillance Information System (ISIS), which consists of three independent components: 1) the RVS camera system; 2) sensors; 3) the Integrated Computer Assisted Detection (ICAD) database. The RVS system integrates multiple color, thermal and infrared cameras, which are mounted on various structures, into a single remote

controlled system. The network of sensors consists of seismic, magnetic, and thermal devices used to detect and track intrusions. ICAD software components assist in the coordination and data collection of agent deployment in response to sensor alarms.

There are currently 264 RVS systems installed nationwide, 195 of which are located along the SWB with the remainder on the NB. Although RVS systems have been strategically deployed in high traffic areas along both borders, critical portions of the border remain inadequately monitored. For example, Southwest Arizona, large portions of New Mexico, and the Big Bend area of Texas lack the necessary systems. Along the NB, Spokane, Houlton, Havre, Detroit, Buffalo, and Swanton require additional cameras.

In addition, ISIS will be expanded along the SWB and NB. It serves to detect intrusion, aid in agent dispatching, and estimating attempts of illegal entry. It is anticipated that by the end of FY 2004, the ISIS Program will maintain 409 previously installed sites, will continue or complete 215 installations, and begin another 35 installations.



The Border Patrol apprehended almost a million illegal entrants in FY 2003.



Protecting America and its Citizens

Goal: Contribute to a safer America by prohibiting the introduction of illicit contraband, including illegal drugs and other harmful materials, into the U.S.

Introduction

After the events of September 11, 2001, the highest priority of legacy Customs became the struggle against international terrorism. A major objective in this regard is to protect the American public from the introduction of weapons of mass destruction and other instruments of terror. Many of the efforts in this regard were described in an earlier section on Preventing Terrorism. A second important objective under our traditional mission is to avert potentially hazardous, harmful, and/or life threatening situations caused by the importation of forbidden or illegal commodities. The major challenge associated with public protection is to identify imports that would be harmful to the public health and seize them before they cause harm.

Narcotics Interdiction

Goal: Reduce the importation of all forbidden or illegal drugs and other materials harmful to the public.

Overview

Although counter-terrorism is CBP's number one priority, the agency still remains a leader in the interdiction of illicit narcotics. Our heightened state of security along America's borders has strengthened our counter-drug effectiveness due to additional manpower and NII technology assets at our POEs. In addition to NII technology, programs such as the Canine Enforcement Program increase our enforcement stature while effectively and efficiently processing trade and the traveling public.

Challenges

CBP faces numerous challenges in its mission to combat drug trafficking and significantly reduce the amount of illegal drugs introduced into the U.S. each year. Drug Smuggling Organizations (DSOs) seek to develop new and sophisticated methods to smuggle drugs into the U.S. by land, air, and sea. These organizations have historically proven to be fiercely determined and creative in order to reach their smuggling goals. They expend enormous amounts of money and time to thwart U.S. law enforcement efforts by finding new concealment techniques, organizing

internal conspiracies, using various transshipment routes, and even attempting to corrupt law enforcement officers.

The demand for illegal narcotics remains high in the U.S. CBP continually works to reduce the effectiveness of the strategies the DSOs employ through the use of coordinated intelligence and interdiction efforts.

As our Nation's first line of defense, CBP plays a unique role in maintaining the integrity of our national security. CBP is challenged more than ever to secure our borders against the introduction of contraband, including narcotics and weapons of mass destruction, while expediting the movement of legitimate cargo and passengers. The greatest threat comes from the volume of trucks, containers, and rail cars that enter the U.S. each year. During FY 2003, 11.1 million trucks, 119.6 million vehicles and almost 412.8 million passengers and pedestrians entered the country. The demands placed upon CBP personnel to screen and examine all targeted high-risk shipments have never been more challenging.

Those who attempt to smuggle narcotics into the U.S. use a wide variety of smuggling techniques and strategies. Smugglers may attempt to conceal the narcotics in various types of conveyances, in cargo, on their person, or in their luggage. They may smuggle through a POE or between ports.

They may also be connected with a drug smuggling organization or group, or they may be acting independently. They may be smuggling large or small amounts of narcotics.

The increased scrutiny of conveyances, cargo, people, and baggage following the September 11th attacks has made it more difficult for a drug smuggler to be successful. Yet, drug smuggling organizations are very creative in developing new strategies to try to circumvent CBP's efforts. CBP, in turn, aims to keep one step ahead of the smugglers through the use of technology, training, automated computer systems and intelligence to either deter or seize the narcotics.

Analysis of Performance

From FY 2002 to FY 2003, the total weight, the total number, and the average seizure weight of cocaine and heroin seized by CBP's OFO staff decreased. While the total number of marijuana and methamphetamine seizures declined, the total weight and the average weight of marijuana and methamphetamine seized increased.

Performance Measure: Narcotics seized by CBP's OFO staff in the course of their duties.

Target: Seize or assist in seizing 37,600 pounds of cocaine, 4,000 pounds of heroin, and 863,500 pounds of marijuana.

Results: CBP seized or assisted in seizing approximately 76,300 pounds of cocaine, 3,900 pounds of heroin, and 863,400 pounds of marijuana.

The weight (pounds) of cocaine seized was 103 percent above projected, the weight of heroin seized was 2.5 percent below projected, and the weight of marijuana seized was at the projected level.

For the past several years, the increase in the smuggling of synthetic drugs has raised significant concern among U.S. law enforcement groups. In FY 2003, CBP made, or assisted in making, 375 domestic methamphetamine seizures totaling approximately 3,134 pounds. Comparing the FY 2003 methamphetamine seizure activity to the FY 2002 metham-



Narcotics interdiction remains a major CBP priority.

phetamine seizure activity, the number of methamphetamine seizures decreased by 4.3 percent.

Target: Effect at least 1,632 cocaine seizures, 742 heroin seizures, and 10,274 marijuana seizures.

Results: CBP officers effected or assisted in effecting 1,806 cocaine seizures, 771 heroin seizures, and 10,516 marijuana seizures.

The number of cocaine seizures was 10.7 percent above the number projected, the number of heroin seizures was 3.9 percent above that projected, and the number of marijuana seizures was 2.4 percent above that projected.

Comparing the number of seizures in FY 2003 to the number in FY 2002, the number of cocaine seizures dropped by 12.2 percent, the number of marijuana seizures declined by 13.2 percent, and the number of heroin seizures decreased by 6.9 percent. During the same timeframe, the average weight per seizure (pounds) decreased for heroin from 6.4 to 5.0, increased for marijuana from 67.5 to 82.2, and decreased for cocaine from 53.4 to 42.2.

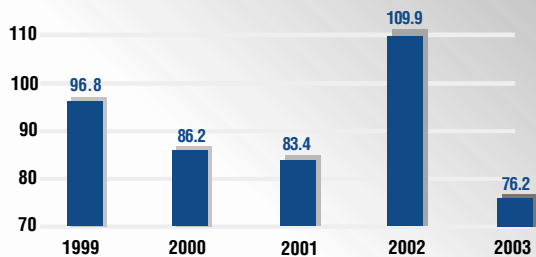
Comparing FY 2003 methamphetamine seizure activity to FY 2002 seizure activity, the total weight (pounds) seized increased by 48 percent (2,117 to 3,134) and the corresponding average weight per seizure (pounds) increased by 59.2 percent (5.4 to 8.4).



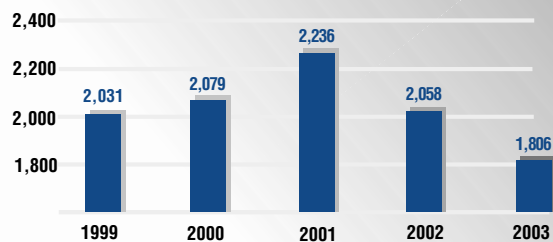
Agricultural inspections are important to protect domestic plants from foreign insect damage.

Office of Field Operations Seizure Statistics (1999 – 2003)*

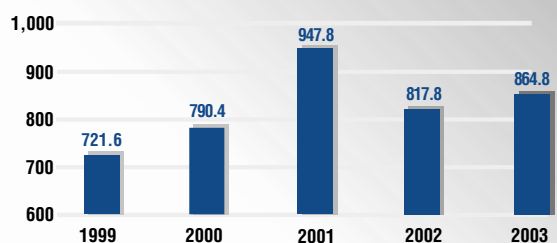
Pounds of Cocaine Seized (in Thousands)



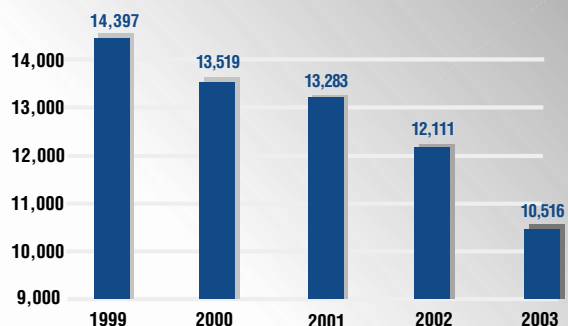
Number of Cocaine Seizures



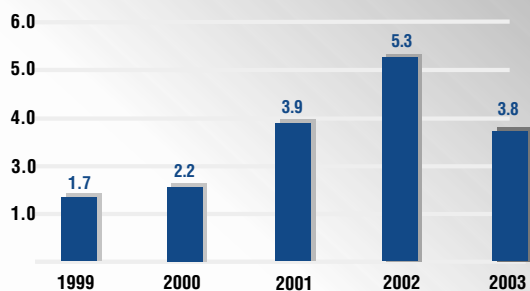
Pounds of Marijuana Seized (in Thousands)



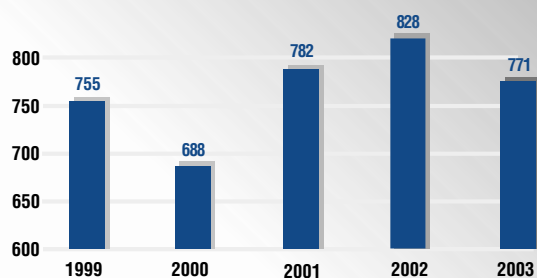
Number of Marijuana Seizures



Pounds of Heroin Seized (in Thousands)



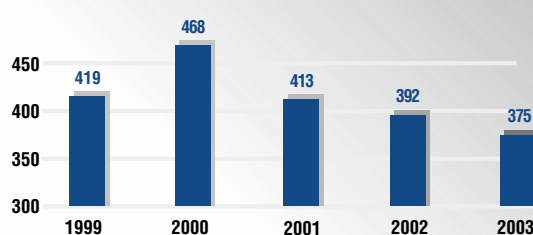
Number of Heroin Seizures



Pounds of Methamphetamine Seized (in Thousands)



Number of Methamphetamine Seizures



*Source: Office of Field Operations October 16, 2003 CLEAR Report

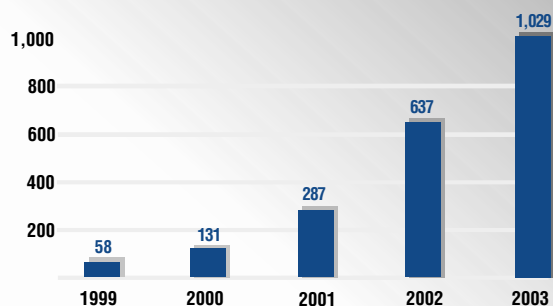
NII Technology

In 1997, the OFO devised a Five-Year Technology Plan that incorporated the use of large-scale high technology to assist in the interdiction of illicit narcotics from entering the U.S. The use of this large-scale NII technology has resulted in a more effective and efficient, as well as less invasive, method of inspecting cargo, compared with drilling or dismantling of conveyances or merchandise. Large-scale NII equipment consists of advanced, multi-million dollar x-ray and gamma-ray imaging systems that greatly reduce the need for costly, time-consuming physical inspection of containers and conveyances. The use of this technology has resulted in the interdiction of 442,000 pounds of narcotics in FY 2003, an overall increase of 61 percent when compared to FY 2002 seizure amounts. Additionally, the number of narcotics seizures resulting from the use of NII has increase from 637 seizures in FY 2002 to 1,029 seizures in FY 2003 (a 61 percent increase).

Weight of Narcotics Seized Resulting From Use of Large-Scale NII Technology



Number of Narcotics Seizures Resulting From Use of Large-Scale NII Technology



Canine searches luggage for illegal substances.

Canine Enforcement Program

On March 1, 2003, CBP was officially established. The new agency combined the individual canine programs from the former Customs Service, Border Patrol, USDA's APHIS, and INS into two programs, the OFO Canine Enforcement Program and the Office of Border Patrol Canine Enforcement Program.

These separate entities joined to form the largest federal law enforcement canine program in the U.S. The Canine Enforcement Program has over 1,200 canine teams assigned to over 73 POEs and 69 Border Patrol stations throughout the U.S. This combined program offers a diverse detection capability including detection of narcotics, currency, explosives, chemicals, agricultural products, and concealed humans.

Three training facilities support the canine force. The Canine Enforcement Training Center, in Front Royal, Virginia, was established in 1974 (Customs). The National Canine Facility, in El Paso, Texas was established in 1991 (Border Patrol and INS) and the National Detector Dog Training Center in Orlando, Florida, was established in 1997 (USDA).

In 1998, the Canine Enforcement Program established a detector dog breeding program to maximize the number of dogs suitable for detection training. The program, modeled after the Australian Customs Service program, has bred 16 litters to date. This program relies on the local community to raise the puppies in foster homes. In 2003, the Canine Enforcement Program expanded this effort by utilizing the Puppies Behind Bars Program at selected prisons to enhance the foster program.

The Canine Enforcement Program is responsible for a significant proportion of narcotic seizures made by CBP, accounting for more than 13,726 narcotic seizures totaling over 1,345,444 pounds of narcotics in FY 2003. The Canine Enforcement Program was also responsible for seizures of U.S. currency worth \$27.9 million in FY 2003. During FY 2003 the Canine Enforcement Program was accountable for over 73,382 Quarantine Material Interceptions of plant products and over 19,188 Quarantine Material Interceptions of animal products with a combined weight of 7,889 pounds.

The specialized agricultural detector dogs were also unified with all the other dog teams in CBP. Known as the Beagle Brigade, USDA APHIS added 141 canine teams to the overall force of CBP. These non-aggressive detector dogs sniff for prohibited fruits, plants and plant materials, meat and animal by-products that could harbor harmful plant and animal pests and diseases. Of the more than 1.7 million interceptions of prohibited agricultural items that were made in FY 2003, the detector dog teams were responsible for about 75,000 seizures.

Beagles were selected because of their acute sense of smell and their gentle nature with people. Some of these elite canines have been known to alert to nearly 50 distinct odors during their six to nine-year careers. The handler will examine the passenger's declaration form and then ask whether the passenger is carrying any agricultural products. If "yes" is checked on the declaration form and a prohibited item is found, the item is confiscated but no civil penalty (fine) is levied. If the response is "no" and contraband is found, the passenger may be fined up to \$1,000 on the spot. CBP has immediate plans to expand the number of beagle teams to meet its agricultural mission.

Terrorism: Detector Dogs

In FY 2003, the Canine Enforcement Program deployed two new programs – the Explosive Detector Dog program and the Chemical Detector Dog Program. These programs are designed to enhance the CBP anti-terrorism efforts, maintaining the Commissioner's focus of anti-terrorism and national security. The first teams were deployed to selected ports in early 2003 in order to prove the concept. Throughout 2003, the Canine Enforcement Program continued to work with other federal law enforcement and intelligence agencies to develop training strategies and protocols based on real-world threats and intelligence trends.

The initial deployment of chemical and explosive detector teams successfully proved the concept of using these programs in proactive enforcement at our Nation's borders.

Based on the success of the initial teams, both of these programs are to be significantly expanded in FY 2004 with additional teams being deployed strategically to ports throughout the U.S.

Agricultural Inspection (AI)

On March 1, 2003, the Agricultural Quarantine and Inspection (AQI) Program of the USDA, APHIS, was consolidated within CBP, as required by Section 421 (e) of the Homeland Security Act of 2002. This consolidation included 2,600+ Agricultural Inspection Officers, technicians, and vacancies.

The traditional APHIS mission was established on April 2, 1972, and from this date the Agency has been responsible for protecting America's animal and plant resources by:

- Safeguarding resources from exotic invasive pests and diseases,
- Monitoring and managing agricultural pests and diseases existing in the U.S.,
- Resolving and managing trade issues related to animal or plant health, and

Historically, the AQI Program focused mainly on preventing the accidental introduction of harmful agricultural pests and diseases into the U.S. Now, the threat of intentional introductions of these pests or pathogens as a means of biological warfare or terrorism is an emerging concern. As a result, Congress enacted the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 to guard against such threats. This Act has given APHIS, CBP, and the Food and Drug Administration additional responsibilities to establish controls of biological agents and toxins, and expand the inspection processes for imported foods.

The new primary mission for CBP's consolidated frontline of defense is the prevention of terrorist or terrorist weapons from entering the U.S. Second, the traditional agricultural inspection mission is to prevent the introduction of dangerous agricultural pests and diseases from other countries that could disrupt U.S. agricultural production.

The overall goal of the AI program is to maintain the risk of introduction of invasive species into the U.S. at acceptable levels to protect U.S. agricultural resources, maintain the marketability of agricultural products, and facilitate the movement of people and commodities across the borders. Accordingly, inspecting travelers and cargo are important in keeping prohibited items out of the U.S., and monitoring for significant agricultural health threats, encouraging compliance with the regulations, and educating the public and importers of the agricultural quarantine regulations.

Inspectors thoroughly examine randomly selected baggage, passenger and commercial vehicles, and cargo to collect information that will enable CBP to do a more efficient and effective job of preventing pest and disease entry, and therefore improve CBP's ability to safeguard U.S. agriculture.

Performance measures best represent the random inspections of travelers and cargo. The data collected from the inspections not only helps to estimate the percentage of compliance but also provides information about the various agricultural items seized to better understand the risk associated with them.

Performance Measure: % of International air passengers in compliance with agricultural quarantine regulations

FY 2002 Actual	FY 2003 Estimate	FY 2004 Estimate
96.2%	97%	97%
(Target was 96%)		

Performance Measure: % of border vehicles in compliance with agricultural quarantine regulations

FY 2002 Actual	FY 2003 Estimate	FY 2004 Estimate
96.1%	96%	96%
(Target was 96%)		

Performance Measure: % of cargo in compliance with agricultural quarantine regulations

FY 2002 Actual	FY 2003 Estimate	FY 2004 Estimate
Not available*	TBD	TBD

*Historically, USDA's compliance rates for cargo have been 98 percent. CBP is confident that it will maintain this level of compliance. However, USDA has decided to suspend monitoring of the broad category of cargo of interest to USDA and now CBP. This USDA decision was made in FY 2002, based on the high compliance rates and on the advice of an independent consultant, that protocols for cargo monitoring should be redesigned.

These revised cargo-monitoring protocols will provide CBP and USDA a better understanding of the risks associated with specific cargo commodity/country of origin combinations (i.e., orchids from Thailand or melons from Costa Rica, etc.). Therefore, overall compliance rates for cargo are not available for FY 2002 and the future fiscal years. New performance measures/indicators for cargo are being developed for FY 2004 and the outyears.

The compliance rates are based on statistical sampling. The actual performance results, which are listed in the table above, are the midpoint of the range. The program collects data used to measure this performance goal through AI Monitoring activities. Program officials collect data at multiple POEs for the air passenger, border vehicle, and cargo pathways by applying standard statistical sampling procedures.

Outbound Interdiction and Security

CBP's Interdiction and Security (Outbound) staff is responsible for enforcing U.S. export laws and regulations. The mission is to interdict illegal exports or unreported currency from the proceeds of illicit activities; prevent international terrorist groups and rogue nations from obtaining U.S. Munitions List and Commerce Control List commodities; enforce sanctions and embargoes against individuals, groups, organizations and countries; interdict stolen property, including stolen vehicles; increase export compliance; and create and utilize the AES to refine targeting effectiveness.

Currency Program

One of the major programs for Interdiction and Security (Outbound) is the Currency Program to interdict and deter the illicit flow of money to terrorist activities and narcotic trafficking organizations. Dedicated Outbound Currency Teams are a crucial element in the fight against terrorism and drugs. Without money and or other monetary instruments, it would be extremely difficult for terrorists and narcotic traffickers to execute their plans. It is therefore important for CBP to continue building on the success it has from the Interdiction and Security (Outbound) Currency Program. The following are figures on the number and value of currency seizures from the field offices.



CBP inspector examining agricultural produce.

The total currency seized in FY 2002 was 1,390 seizures valued at \$45.2 million. For FY 2003, there were 1,337 seizures valued at \$51.7 million. According to the compiled figures for FY 2003, several Field Offices demonstrated a significant number of increases in their currency seizures. The Port of Miami generated one of the highest increases in the value of the currency seizures. During FY 2002, the value of currency seizures in the Miami Field Office was \$2.6 million. However, in FY 2003 the number jumped to \$11.4 million, a difference of \$8.8 million. The Baltimore, Detroit, Northwest Great Plains, and Arizona field offices also had significant increases. In ports where dedicated Outbound Currency Teams have been established, maintained and supported, significant results have followed.

Outbound Stolen Vehicle Program

To interdict stolen vehicles, CBP inspectors check for Vehicle Identification Number (VIN) switches, altered title documents and other mechanisms to move stolen vehicles out of the U.S. A total of 552 stolen vehicles, valued at \$4.6 million, were recovered in FY 2003.

During FY 2003, CBP and the National Insurance Crime Bureau (NICB) conducted five advanced automobile theft interdiction classes at the FLETC. A total of 120 inspectors and agents were trained in the identification of fraudulent titles, altered VINs, identification of construction equipment and motorcycle identification numbers, and CBP regulations regarding vehicle exports.

CBP and NICB have entered into an agreement whereby NICB receives raw data feeds collected by outbound License Plate Readers (LPRs). This allows NICB to initiate recovery actions to repatriate stolen vehicles that have been exported into Mexico.

EXODUS Enforcement

CBP is responsible for enforcing the International Traffic in Arms Regulations (ITAR) for the Department of State, the Export Administration Regulations (EAR) for the Department of Commerce, and sanctions and embargoes for the Office of Foreign Assets Control (OFAC). CBP also enforces the Bureau of the Census regulations for SEDs.

During FY 2003, inspectors interdicted a total of 993 shipments valued at \$110.2 million for violations of the ITAR, EAR, and OFAC sanctions. This is a 12.5 percent increase in the total number of seizures over FY 2002. However, it represents a 62.9 percent increase in the value

of the seizures. Additionally, CBP seized another 728 shipments valued at \$45.8 million for violations of the Census regulations for SEDs.

These seizures are significant in that the shipments could have been diverted to terrorists or other illicit activities. The inspectors conducting enforcement operations on outbound cargo have been successful in targeting both the number of shipments being exported and high value shipments that are being exported in violation of EAR, ITAR and OFAC sanctions and embargoes.

Inspectors from the field identified a significant enforcement concern regarding DOD shipments being exported through express courier consignment facilities. Meetings between DOD, the Directorate of Defense Trade Controls, and the Census have been held to resolve the issue of export documentation, with CBP advising both sides regarding enforcement of proposed changes to the current regulations.

The Department of State, Defense Security Cooperation Agency from DOD, and CBP's Interdiction and Security (Outbound) have formed an interagency working group to review and improve the procedures, regulations and documents required for Foreign Military Sales shipments. The goal of the interagency working group is to establish better export control mechanism and improve accountability of controlled munitions being exported from the U.S.

EAR, ITAR and OFAC export violations represent a significant threat to the U.S. national security. The commodities licensed by the Departments of Commerce and State and the OFAC, if not properly controlled, could end up in the hands of terrorists, organized criminal elements or narco-terrorists and be used against U.S. interests or citizens in the U.S. or abroad.

During FY 2003 CBP conducted six EXODUS classes at the FLETC and provided training for 144 inspectors. The training runs three days and covers ITAR for exports of arms and munitions, EAR for dual-use and high-technology commodities, OFAC for embargoes and sanctions against identified drug dealers and terrorist entities, computer information databases, Census regulations for SED information, and targeting and legal issues.

Modernizing and Managing

Goal: Continue to build a strong, modern management infrastructure that assures the achievement of business results.

Support for CBP's new mission comes from a number of important functional areas that include:

- Human Resources Management
- Equal Employment Opportunity
- Training
- Financial Management, and
- Information Technology

The merger of the components of several different government agencies into CBP has presented complex new challenges in all of these support areas. Providing adequate and uniform resources, facilities, training, and technical support for a range of occupational groups from disparate agencies and backgrounds has proved to be a formidable task. The policy, procedural, and accounting changes required for this transformation have been considerable, and the efforts to complete the changeover successfully are ongoing. The goal of this process is to make the new CBP a world-class organization.

Human Resources Management

During FY 2003 HRM developed and implemented strategies to facilitate the establishment of CBP and its critical mission of detecting and preventing terrorists and terrorist weapons from entering the U.S.

Transition to DHS

In March 2003, with the establishment of the DHS and CBP, CBP's HRM staff created the organizational infrastructure for the new agencies. As the workforces from three agencies began to work as "one team" within CBP, there were many traditions as well as administrative and operational programs that were addressed to provide a single front at the borders and ensure that mission needs were accomplished.

HRM worked with the DHS human capital office in the identification and development of human capital strategies and policies. It supported and provided input to the DHS/Office of Personnel Management (OPM) design team

responsible for developing options for human resource systems addressing pay, performance, and labor and employee relations. Key issues such as inconsistencies in pay among the employees coming into the new organizations were identified.

Representatives from OF, OIT, and HRM formed a team to prepare for the transfer of employees to the new organizations. The first priority was to ensure that front line employees were identified and aligned to their new organizations. Then the administrative and mission support employees were identified. Working through the Transition Management Office (TMO), management teams sorted through various support functions. As a means to provide more efficient services throughout the Department, some functions were identified to be shared services; i.e., services that could be provided by one organization for other organizations within the Department. HRM was identified as the shared service provider for CBP, ICE, and Citizen Information Services (CIS). Extensive plans were developed to provide these services in FY 2004.

Establishing CBP

HRM worked closely with the Border Patrol, OFO, and the TMO to establish its new organization, align their employees, and fill their key positions. Strategies were developed and implemented to fill management and supervisory positions on both an interim and permanent basis. It was important to ensure that employees from legacy Customs, Immigration and Naturalization, and Agriculture could be considered for these positions. CareerFinder provided a paperless application process for filling these positions. In addition, it was possible to streamline processes and use existing supervisory assessments from CBP and ICE to fill first line supervisory positions and ensure that the right people, with the right skills, in the right locations, could be selected.

The CBP Officer position was established. This position incorporated many of the functions of the Customs Inspector, Immigration Inspector, and the Plant and Protection Quarantine Officer to support the “one face at the border” strategy. It was enhanced to include the critical mission of detecting and preventing terrorists and terrorist weapons from entering the U.S., while continuing to facilitate the orderly and efficient flow of legitimate trade and people across the borders. Plans to advertise, recruit, test and hire new CBP officers were completed in preparation for FY 2004 hiring.

Strategic Recruitment

Aggressive hiring strategies resulted in the hiring of more than 2,500 Customs Inspectors, Canine Enforcement Officers and Criminal Investigators to ensure that the borders were adequately staffed. FY 2003 training classes were filled two months in advance this year allowing new employees to report to their duty stations prior to their training. National recruitment and the use of hiring plans provided a pipeline of more than 1,800 cleared candidates available for immediate hiring in FY 2004. In addition, extensive planning sessions with the Minneapolis Hiring Center ensured a smooth transition of the Immigration Inspector applicant pools to be considered for the CBP Officer vacancies.

Continuing improvements were made to streamline quality recruitment through such efforts as video-based testing for structured interviews, scanning applications to eliminate excess paper, and creation of an Internet website for candidates to quickly check on their status. In addition, CareerFinder was evaluated and identified as a “system of choice.” Customers particularly liked the improved time-frames for posting jobs and issuing referral lists. They also indicated that the quality of the candidates is the same or slightly better than the paper process. HRM’s Intranet site was refined and improved, providing managers with desktop

service/access to 95 percent of CBP standard position descriptions.

Workforce Effectiveness

HRM worked closely with CBP organizations to ensure that labor relations obligations were met for appropriate unions representing CBP employees. They supported such initiatives as unified primary, unified cargo, uniforms, CD training, and tactical communications. Interim delegations of authority were developed to address performance management, disciplinary and adverse actions, and grievances. While developing and improving labor employee relations (LER) programs, HRM ensured that CBP and ICE managers received comprehensive LER support throughout the transition, as well as tools to improve management of a workforce with large numbers of new employees.

Employee Services

Strategies were developed to ensure that CBP employees were able to focus on their mission without concern for their pay and benefits. Comprehensive benefits information was provided so that informed decisions could be made in the areas of long-term care insurance, thrift savings plan catch-up contributions, and flexible spending accounts. Information was provided for military reservists regarding their pay, leave, and payment of health insurance premiums. The use of email and the Intranet ensured that employees had easy access to the information.

An HRM Call Center was established to quickly respond to employees’ questions about their pay and benefits. The team, responsible for problem solving, was able to correct personnel problems and coordinate issues with payroll. Systemic problems were identified and corrected.

Workplace Safety

Safety and injury/illness reduction was a priority within CBP. Utilizing risk assessments, HRM partnered with OFO to place additional emphasis on the 12 POEs with the highest number of injuries (53 percent of injuries in FY 2002). A new CBP Safety and Occupational Health Program Handbook was issued to implement changes in regulatory requirements and provide user-friendly electronic forms. Monthly briefings with the Directors of Field Operations included discussions of injury/illness incidents, accident investigations, and operational needs. Training, information campaigns, and program evaluations continued to be important strategies for addressing safety in the workplace. Examples included:

- Radiation safety training for the new model POE at the CBP Academy
- Back injury prevention training for inspectors and canine enforcement officers

- Introduction to safety training for collateral duty safety officers
- Hazardous material annual refresher training for hazardous cargo coordinators
- CD-ROM training for supervisors
- Awareness bulletins for severe acute respiratory syndrome and use of respirators
- Safety analysis of the food inspection process and development of training for cross training legacy customs and immigration inspectors

Equal Employment Opportunity

During FY 2003, the Office of the Special Assistant to the Commissioner for EEO continued to implement innovative initiatives and reforms to enhance performance while refining the infrastructure to effectively service the new CBP. The EEO Office also ensured continued compliance with the Nation's civil rights laws.

The EEO Office, in consultation with OTD, has completed the first installment of the World Class Training Initiative, an intranet based program which provides instruction tailored to five distinct populations within the workforce: all employees, managers and supervisors, executives, EEO practitioners, and employees with Special Emphasis Program responsibilities. One feature of the World Class Training Initiative, an electronic resource room, will enable students to advance civil rights research by referring to additional references and links. During FY 2003, the EEO Office designed and delivered a training intervention to approximately 5,000 employees.

The purpose of the training was to educate employees about their rights and responsibilities. The goal of the training was to educate and enable them to distinguish between discrimination, disagreements and disappointment, and provide them with the tools to assess their issues and determine the best venue for addressing their issues. Externally, EEO staff delivered training in a number of national forums, including, but not limited to, the Blacks in Government (BIG) national conference, the Federal Dispute Resolution (FDR) conference, and the Federally Employed Women (FEW) national conference.

The EEO Office completed CBP's first ever "Reasonable Accommodation Plan." The plan establishes a uniform and centralized process for handling requests for reasonable accommodation. It will promote consistency in the disposition of reasonable accommodation requests CBP-wide.



CBP strives to have a diverse workforce.

The EEO Office, in partnership with the OIT, completed the first automated system for managing EEO information. The first installment of this system focuses on the complaints processing function, providing a system for capturing information pertinent to the entire life cycle of the EEO complaint, from informal processing through disposition. Also, the system is designed to assist in evaluating EEO trends.

The EEO Office implemented a series of refinements during FY 2003 to facilitate increased resolution of workplace disputes. EEO staff received intense technical training to improve upon the competencies required to help employees, applicants and managers to resolve issues. Also, full-time EEO specialists replaced collateral duty counselors to provide more effective and efficient counseling. Using a variety of conflict resolution techniques and encouraging communication between the parties, resolution of complaints has increased, thereby enabling CBP personnel to focus on CBP's mission critical work.

Training

This year OTD maintained its focus on the DHS's top priority for anti-terrorism training and added a new focus to create and develop "one face at the border." In an unprecedented period of time, OTD launched dozens of new initiatives to cross-train more than 17,000 inspectors to lead the change and develop essential skills for the new CBP Officer. New records were set for the number of training instances for the fourth year in a row. Overall, as of the end of FY 2003, there were 270,912 instances compared to 225,215 for FY 2002, which is an increase of 20.3 percent. The CBP Academy provided basic, advanced, and specialized training to 8,265 students in FY 2003, an increase of 2,443 graduates over FY 2002. The prior year figure was previously the highest level of residential training delivered. In FY 2003 the Border Patrol Academy became part of CBP and trained more than 2000 students in basic and advanced training programs.

Discussion of Performance and Progress by Priority Area:

Preventing Terrorism/Protecting Our Homeland

OTD continued to put a priority on the development and delivery of hundreds of hours of new anti-terrorism training. Key accomplishments included:

- Developed and disseminated over 35,000 CD-ROMs on Detecting Terrorists and Terrorist Weapons to all inspectors, border patrol agents, agents, import specialists, and intelligence research specialists
- Developed and delivered approximately 200 new hours of anti-terrorism training embedded in 18 courses at the CBP Academy
- Designed a “train-the-trainer” curriculum for field delivery of Customs Inspection anti-terrorism training, with over 8,800 trained to date.
- Designed the new CSI targeting course that was delivered to over 450 students this fiscal year
- Presented anti-terrorism table-top exercises at field locations
- Designed anti-terrorism bulletins to share information on incidents
- Designed anti-terrorism “muster modules” for delivery at field musters
- Developed a multi-phased emergency response action plan for the safety and welfare of CBP employees in the Washington, DC, metropolitan area with plans to use this as a nation-wide model in the future.

Facilitating Trade and Travel while Protecting the Homeland

OTD coordinated the initial C-TPAT training course for validating partner applications for Supply Chain Specialists and developed a C-TPAT process booklet for its members. In addition, OTD developed a plan for the creation of a university program for these employees and assisted at the C-TPAT trade seminars. OTD led a multi-office work group to strengthen and expand training for NII equipment. This resulted in the revision of VACIS training, embedding NII training into the Academy’s Basic Inspector Curriculum, and enhancing existing NII training via distance learning.



Range officers take an inspector through a selective firing drill.

Integrating Border Functions

In record time, OTD developed a new CBP Officer course that integrates the functions of the legacy Customs, INS, and agriculture inspector at the primary level. The first class was delivered in October 2003. OTD also began development of in-port training covering critical skills required at secondary level that will follow the residential class. In addition, OTD began providing phased cross training to the 17,000 incumbent inspectors to prepare them for taking on the additional functions of their legacy counterparts. Finally, OTD successfully launched the return of all Border Patrol Academy basic training to the FLETC Glynco campus to be co-located with the CBP Officer Academy. This allows for joint training between the new agent and inspector recruits and facilitates the integration of border procedures and response tactics at the beginning of officers’ careers. OTD developed and delivered the Making Primary Decisions CD-ROM and a Partnership Counter-Terrorism Program for legacy Customs and INS Inspectors to reacquaint officers with each other’s roles.

Strengthening Security at POEs

OTD designed, developed, and delivered Counter-Terrorism Secondary Airport Primary training for airport supervisors in 19 locations covering approximately 50 airport sites. This one-day program was designed to enable legacy teams to assume their new roles in the passenger processing areas and to build an effective CBP team.

Prohibiting Entry of Illicit Contraband into the U.S.

OTD implemented the Small Boat Interdiction Program (SBIP) to better equip over eighty Air and Marine Interdiction Division (AMID) officers to more safely interdict smugglers and other threats in the marine environment. The SBIP has resulted in multiple arrests and seizures of drugs and watercraft – with no injuries to date. Academy sponsored field-delivered training at POEs has provided thousands of inspectors with specialized skills and resulted in many successful drug interdictions. OTD developed and is

delivering new anti-terrorism training to import specialists to help identify high-risk importers, dual-use commodities, and potential connections between trade fraud and illicit financing of terrorist activities.

Building a Strong, Modern Management Infrastructure

OTD delivered two programs comprising the Succession Management System: the Executive Development Program and the Management Development Program. Formal training at the Customs Leadership Institute (in partnership with the Columbia University Executive Education faculty, ranked number one in the world by the Financial Times) was completed by 9 executive candidates and 47 management candidates. OTD piloted a new management course, the Management Development Institute, in partnership with the University of Connecticut; there were 29 management participants. OTD coordinated the installation of CBPTV, a satellite network, in hundreds of locations across the country. The office supported the transition effort through scheduling, coordinating and promoting the “On The Line” series, CBP Town Hall meetings, Secretary Ridge meetings, and other communication programs. OTD has utilized the network to deliver training to the frontline such as Change Management, Hearing Conservation, Anti-Terrorism Awareness, and Import Specialist Training. CBPTV has also become a viable communication tool for announcing upcoming initiatives and training programs, such as SAP awareness and training announcements, FAS training announcements, and Tabletops training announcements. Finally, OTD is providing ongoing training for all supervisors, managers and executives in support of the transition to DHS. And OTD is planning shared services with ICE and BCIS to deliver joint training programs to strengthen manager networks across agencies.

Financial Management

Overview

CBP strives to be a leader in financial management by providing high quality, cost-efficient financial management services through customer involvement and modern, integrated financial systems. Our goal is to develop and promote more effective and efficient methods to obtain and manage financial data, resources, and capital assets, consistent with the needs of customers and stakeholders.

Critical in this process is the imperative to safeguard and properly account for revenue, accurately identify amounts owed the U.S. Government under existing laws and regulations, efficiently and effectively collect the revenue, and accurately report the status of revenue collections. Equally important is

the requirement to acquire and effectively manage the assets needed to accomplish the CBP frontline mission. This includes: translating workloads and requirements into budget requests for needed resources; allocating and distributing funds after resources are made available; acquiring and distributing personnel, goods, and services that are used to accomplish the CBP mission; managing and paying for those goods and services; and reporting on the costs and use of personnel, goods, and services.

Challenges/Strategies

The most significant challenge that the legacy Customs faced in FY 2003 was the integration of services, systems, and staff necessitated by the consolidation of several agencies into the new bureau of CBP. In financial management, this included the need to integrate the budgets of all agencies absorbed within the new CBP, re-arrange facilities and space to accommodate consolidated staffs and functions, redesign uniforms, consolidate property and equipment, and begin the task of integrating and consolidating financial systems and data in order to provide continuous financial management support to all affected employees. Additionally, CBP was faced with continuing to complete the various tasks associated with reconstituting our New York offices following the aftermath of the September 11th attacks. Plus, the task of planning for the future, in light of major new priorities associated with combating terrorism, involved obtaining and putting in place the resources for fighting this new war.

A continuing challenge faced by CBP is to improve its systems capabilities for accounting and reporting of financial information to meet the high standards now expected of Federal Government entities. This will entail a more effective use of accurate, reliable financial information in conjunction with budget and cost information to help managers make better decisions. In pursuit of this challenge, CBP continued the implementation of its new financial system by bringing on line at the end of FY 2003 for use at the start of FY 2004 the largest number of system changes with Release 2 of SAP. The impact of SAP/R2 is far reaching, as it will put into place new automated, integrated processes for handling the management of personal property and vehicles; doing procurements, including simplified acquisitions, major contracts, and purchase card purchases; and accounting for and reporting the receipt of goods and services procured. The successful implementation of these new systems is one of the largest challenges and opportunities faced by CBP. In addition, the explosive growth of U.S. trade with other countries, as stimulated by international trade agreements, will continue to increase our challenges associated with collecting and accounting for correct amounts of revenues due to the U.S.

Strategies to address these challenges involve efforts to modernize and improve our technology, systems, and processes, as with SAP/R2. We continue to pursue the enhancement of existing systems and the development of new systems and procedures that maximize the use of electronic commerce in accomplishing financial transactions. We also have placed greater emphasis on the training and revamping of our workforce to accompany anticipated changes in technology and equipment. We have made, and will continue to make, real progress in developing a fully integrated, automated financial system to process our accounting, procurement, and asset management transactions. Our goal is to ensure the reliability, accuracy, and usefulness of financial system data, while simplifying the burden of data entry and retrieval. We anticipate that the improvement of our financial systems will parallel the modernization of CBP commercial systems to ensure effective coordination and synchronization of system functions.

FY 2003 Initiatives

In FY 2003, CBP made progress in implementing a number of major financial management initiatives. Some of the more significant were:

- Successfully relocating all of the New York employees that were previously housed at 6 World Trade Center into new, permanent office space;
- Resolving the difficult issues associated with and ultimately accomplishing the submission of the first FY 2004 CBP Congressional Budget Justification, recognizing the merger of the former Customs, and parts of INS and APHIS into the new CBP;
- Securing the support of new DHS management and of Congress for the continuing development of ACE, as well as for our ACE expenditure plans;



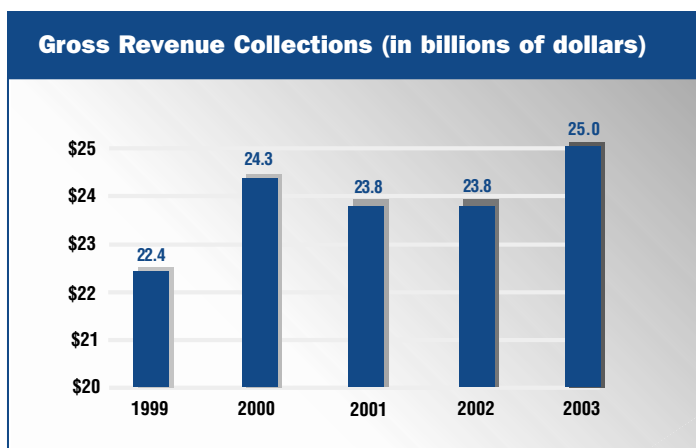
Information technology is crucial to financial management as well as other agency operations.

- Continuing the development and implementation of SAP as part of efforts to modernize our financial systems, with the implementation of Release 2, involving new systems and processes for asset receipt and management and for procurement functions;
- Providing leadership and oversight to ensure legacy Customs/CBP financial functions and systems were ready for the March 2003 transition to CBP and the October 2003 transition to DHS;
- Successfully transitioning all legacy Customs employees from USDA's Treasury database to USDA's Homeland Security database;
- Providing leadership and guidance in the negotiation and development of shared services agreements, resulting in the CBP Office of Finance being the service provider for printing and graphics, fleet management, and facilities construction, management, and acquisition;
- Coordinating with Treasury and OMB on policies and procedures related to the transfer of resources to DHS, and completing apportionment requests under the new DHS account structure;
- Continuing to increase our use of electronic commerce, making 91.3 percent of vendor payments, 97 percent of travel payments, and 99 percent of salary payments electronically;
- Taking the lead to promote the establishment of an investment review process at DHS, which resulted in the adoption of a non-IT investment review component modeled largely upon the CBP non-IT investment review process;
- Processing 192 Swisher-type Harbor Maintenance Tax claims totaling \$145.9 million and processing 2,230 administrative refunds totaling \$339.7 million;
- Continuing to successfully implement provisions of the Continued Dumping and Subsidy Offset (Byrd) Act of 2000 by processing more than 1,800 claims within the statutory timeframes, totaling over \$330 million;
- Leading the effort to extend the COBRA legislation and pointing out the need for revision of COBRA fees to provide revenues to recover the full costs of CBP services; and

- Designing and launching the Border Infrastructure Modernization Program as a major (Level I) DHS acquisition program to address long-neglected facilities requirements, including the submission of a land border station capital investment long-range plan for FY 2003-2010.

Financial Results and Performance Measures

CBP now administers the U. S. Trade Program by enforcing the laws governing the flow of merchandise or commerce across U. S. borders, and assessing and collecting duties, excise taxes, fees, and penalties on imported and exported goods and services. In FY 2003, legacy Customs collected \$25 billion in gross revenue; \$22.2 billion of this represented custodial revenue of which \$21.9 billion was returned to Treasury to fund other federal agency programs. Legacy Customs also returned \$29.9 million to the Governments of Puerto Rico and the U. S. Virgin Islands, transferred \$93 million to other federal agencies, used \$1.2 billion to fund refund and drawback payments for trade activity, and retained \$56.1 million to offset various program costs allowed by law and regulation.

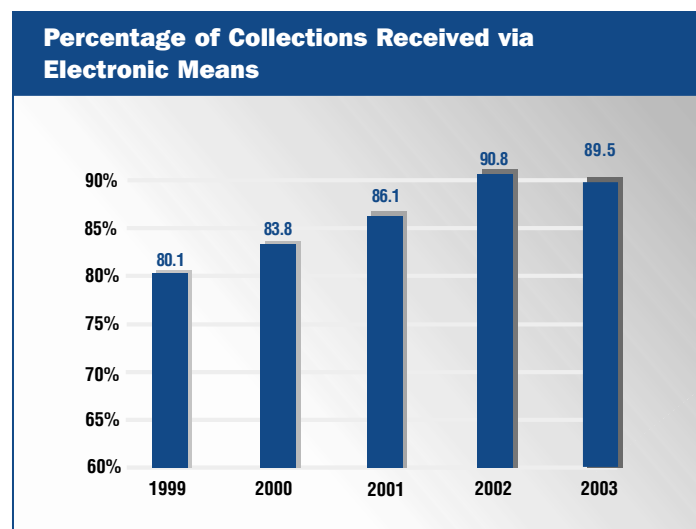


Goal: Increase total revenue collections through electronic means to at least 85 percent.

Measured Results: Legacy Customs revenue collections through electronic means reached 89.5 percent.

CBP has taken over collection of tariff duty, user fees, Internal Revenue Service (IRS) excise taxes, and other assessments. In FY 2003, 89.5 percent of revenue collections were made through electronic means. In an effort to improve efficiency and reduce associated costs of the collection/deposit process, legacy Customs encouraged the trade community and other government agencies to use electronic means when making payments or transfers. Electronic payments made to an agency are credited to

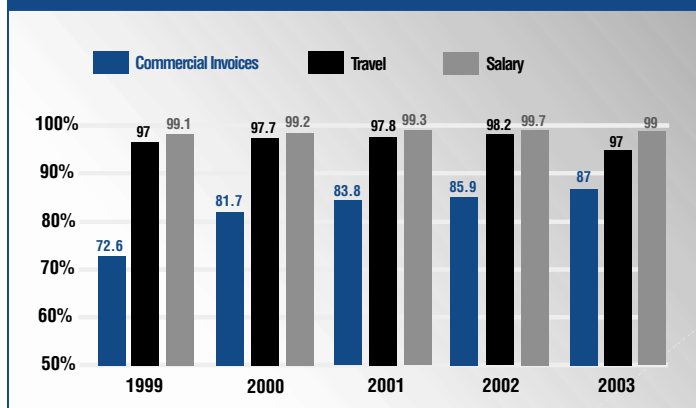
Treasury accounts faster than cash and checks. Much of the manual process associated with cash and check processing does not occur when funds are received electronically. Legacy Customs used several different electronic transfer systems. The Automated ClearingHouse (ACH) is used to transfer payments from the trade community directly to the agency. The Intergovernmental Payment and Collection System is an electronic system used by governmental agencies and bureaus to transfer funds within the government. Fedwire is used primarily to receive payments of IRS excise taxes and credit card transactions.



Goal: Maintain or increase the percentage of travel, commercial invoice and salary payments made through electronic funds transfers (EFT).

Measured Results: The accompanying chart identifies the incremental increase in the payments made through EFT between FY 1999 and FY 2003. As of September 30, 2003, the percent of travel payments processed through EFT exceeded 97 percent, salary payments exceeded 99 percent, and commercial payments exceeded 87 percent. Public Law 104-134, the Debt Collection Improvement Act of 1996, requires federal payments to be made electronically. The law also specifies certain exceptions under which the electronic requirement can be waived. Without elimination of these exceptions, it is very unlikely that a 100 percent performance rate will ever be attained. We recognize the cost and time-saving benefits that result from EFT processing and will continue to maintain or improve the related performance percentages.

Payments Made by Electronic Funds Transfer (Percentage)



Information Technology

Introduction

The OIT provides integrated, comprehensive technical support to the mission of CBP. OIT provides information technology, research and development, scientific and forensic laboratory services, tactical communications support, and manages the Modernization program. OIT also manages the computer security program; establishes automated interfaces between CBP and trade participants, and other government agencies; and provides reference library and electronic information resources.

Technology Support for CSI

In fiscal year 2003, engineers from OIT performed site surveys, design and installation of the voice and data, and automated data processing equipment for a number of sites in Europe and Asia. All of these sites are now operational. OIT will continue supporting CSI into the next fiscal year and beyond. In collaboration with the CSI program staff in the Office of International Affairs, we are working on the schedule to provide the technical support to establish additional sites throughout the world.

OIT personnel have also been instrumental in providing modifications to CBP automated systems in support of CSI. OIT provided the programming to implement CSI by capturing manifest information from CSI partner countries directly into ACS and making the data available for risk evaluation and anti-terrorism targeting.

Modernization

To further the CBP mission of securing our Nation's borders while facilitating legitimate trade, this year CBP began implementation of ACE, which will eventually replace the current trade system. ACE will provide tools and enhance the business processes that are essential to securing U.S. borders, speeding the flow of legitimate goods, and targeting illicit goods. The ACE capabilities have been designed to identify potential risks, analyze information prior to arrival of people and cargo, and provide intelligence in easy-to-use formats. As a web-based system, ACE will provide users from government and the trade community with new, more efficient ways of accessing, processing, and sharing trade-related information.

Accomplishments and Highlights

- OIT developed and deployed the infrastructure to support the modernization of all of CBP's automated systems. The new infrastructure will support the elimination of paper and transaction-based filing and helps to create on-line account structures to improve information access and facilitate CBP and trade community communication and activity tracking.
- OIT launched the pilot test of the ACE Secure Data Portal. The portal provides a single web-based access point to CBP data and provides a tool for on-line communication between CBP, the trade community, and eventually, participating government agencies. Over the summer and fall of 2003, several hundred users participated in the pilot test, including 41 importers and the CBP personnel servicing those importer's accounts. These accounts represent 17 percent (\$187 billion) of the total value of imports (\$1.2 trillion in FY 2002) and 12.6 percent (\$2.5 billion) of total duties collected (\$19.8 billion in FY 2002) by CBP. The portal was officially adopted in fall 2003. CBP will begin incrementally expanding access to more ACE participants, with a goal of providing access for all users in all modes by the end of 2007.
- A new release of the FAST 1.1 system was implemented in March 2003. FAST is a bilateral initiative between the U.S. and Canada that aims to increase the integrity of supply chain management by offering expedited clearance to truck carriers and importers enrolled in C-TPAT or Canada's Partners in Protection (PIP). Driver/carrier/conveyance relationship is established through the manifest-release transaction. The primary benefit of this release is support for a reduced set of mandatory data elements.



CBP labs contribute to our overall mission.

As part of this release, architecture changes were made to begin aligning FAST with ACE.

In addition to these major accomplishments:

- The OIT Radiation Monitoring Program deployed over 60 RPMs, over 400 handheld RIIDs, and nearly 3,800 PRDs nationwide during FY 2003. At the same time, CBP has taken an inspector workforce unfamiliar with this technology and trained over 7,000 of its personnel to operate one or more different types of this equipment and effectively handle radiological threat situations, while still maintaining operational efficiencies and effectiveness in many other areas of responsibility. CBP's Radiation Monitoring Program effectively screens cargo and personal conveyances entering the U.S. for sources of radiological concern, while still facilitating the efficient flow of trade through our POEs.
- OIT implemented several changes to APIS in support of new legislation. Three major accomplishments were achieved during this fiscal year. The APIS has been converted to receive carrier manifest transmissions in UN/EDIFACT, the newly adopted World Customs Organization standards in the Advance Passenger Information exchange, with the expanded information required by new legislation. The second major task achieved was the enhancement of APIS to process 100 percent outbound APIS manifest information. Prior to September 11, 2001, air and sea carriers were not required to send manifest information on travelers departing the U.S. The last major task was the implementation of a process whereby all non-U.S. citizens arriving at sea and air POEs are screened against the FBI and state and local criminal history databases.
- A new interface was implemented for CSI and eAPIS initiatives. The new interface provides a cost-effective way for smaller entities to transmit CSI and APIS data to CBP.
- CBP initiated a network transition from the Treasury Communications System (TCS) to a CBP private network using the FTS2001 contract vehicle. Network engineers traveled to approximately 900 CBP sites in the U.S. and abroad to cut over network management services. The network transition will yield cost-savings of several million dollars to CBP and favorably positions the network for easy integration with DHS infrastructure.
- Laboratories and Scientific Services, in conjunction with OFO, successfully implemented the National Weights and Scales Program at critical seizure storage vaults around the country. This program deployed uniform scale and calibration weight equipment, and a scientifically sound standard calibration record keeping system. This deployment brings accurate record keeping to the movement of weighable seizures into and out of seizure vaults.
- CBP successfully implemented the Laboratories and Scientific Services Radiation Technical Assistance Hotline. This Hotline is staffed 24 hours a day, 7 days per week, by fully trained scientists to assist frontline personnel in determining potential radiation threats. The hotline receives additional technical opinions and support from scientists at Los Alamos, Sandia, and Livermore National Laboratories.
- Laboratories and Scientific Services implemented its national forensics and crime scene processing training for agents in ICE and for CBP inspectors. As part of the training, approximately 35,500 field drug test kits were distributed to port personnel.
- OIT's Tactical Communications Division is involved in leading and supporting a number of joint initiatives in support of the DHS tactical communications area that will provide a solution to inter-operability issues internally among DHS agencies and externally between DHS and other federal, state, and local public safety agencies. This fiscal year the Northern Border Tactical Communications Enhancement and Upgrade Project was initiated to address mission critical tactical communications deficiencies identified by senior field managers that impose risks to mission accomplishment and officer safety along the NB. This project will upgrade the tactical communications capabilities at many of the NB POEs and Border Patrol stations. In addition, the CBP/ICE Unified Tactical Communications Program was initiated to effectively integrate legacy Customs, INS, and FPS tactical communications capabilities (network infrastructure access and 24/7 user support

services) to provide interoperability among all CBP and ICE components by June 2004.

- OIT received recognition for exceeding small business goals and outstanding support of the Small Business Program by instituting an aggressive program to increase the use of external sourcing strategies in order to identify small business organizations that can provide needed supplies and services. This resulted in the OIT Acquisition Support Team representative being selected as the Small Business Program Manager of the Year 2003 for Treasury.
- OIT awarded the largest civilian agency performance based contract under Section 8(a) of the Small Business Act (15 U.S.C. 644, as amended). The contract forms a partnership with private industry for quality maintenance, training, logistics, and operations support for CBP's frontline inspection equipment. It also ensures that CBP Officers: 1) have high technology inspection equipment that is mission capable and available for the job, and 2) are able to safely, competently, and confidently operate the equipment in support of their mission.
- In FY 2003, OIT worked closely with ORR to redesign and implement a new public recordation database known as the IPR Search (IPRS). This database is very similar in form to the rulings database in that it offers an improved, easily-navigable interface and returns extremely accurate search results on public versions of over 22,000 IPR recordations. The final prototype completed testing in late September and plans are underway to introduce IPRS in FY 2004.
- OIT launched the eBook program over the CBP Intranet in July 2003. The program provides a powerful agency-wide research tool to CBP employees at the desktop by pushing access to a library of electronic books to employees worldwide.
- In order to meet the challenges of Modernization and CBP integration into DHS, OIT continued its progress in Capability Maturity Model (CMM) and International Standards Organization-based process improvement. OIT divisions have successfully completed either CMM Level 2, CMM Level 3, or International Organization for Standardization assessments. OIT has put in place the infrastructure, governance, and key initiatives for the Enterprise Process Improvement Program that will now coordinate the next steps of an OIT-wide focused approach to process improvement.
- OIT delivered the Process Asset Library (PAL), an intranet-based reference library, which will enable projects, technical staff, and mission sponsors to share policies, procedures, samples, and other process improvement documents. The PAL is an industry best practice of mature organizations and is a key element of OIT's process improvement strategic plan.

FMFIA Summary

U.S. CUSTOMS AND BORDER PROTECTION

Department of Homeland Security

1300 Pennsylvania Avenue, N.W., Washington, D.C. 20229

Commissioner

MEMORANDUM FOR JANET HALE
 UNDER SECRETARY FOR MANAGEMENT

THROUGH: ASA HUTCHINSON
 UNDER SECRETARY
 BORDER AND TRANSPORTATION SECURITY

FROM: Commissioner

SUBJECT: Federal Managers' Financial Integrity Act and
 Federal Financial Management Improvement Act
 Fiscal Year 2003 Assurance Statements

As required by the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA), I am forwarding to you my assurance statements relating to the overall management controls and controls over financial systems at Customs (for purposes of this FY 2003 statement, Customs where used will be taken to mean legacy Customs).

In preparing these statements, I have relied on information and statements provided to me by the Office of Finance, which has in turn relied on statements and information provided by senior managers at U.S. Customs and Border Protection (CBP).

Customs had four outstanding material weaknesses at the beginning of FY 2003. Although we are well on our way to resolving a number of these weaknesses, until they are closed the existing deficiencies in the quality and adequacy of data provided by Customs financial accounting and reporting systems prevent me from providing reasonable assurance as of September 30, 2003, that Customs overall controls and financial management systems were in conformance with standards prescribed by the Comptroller General of the United States. Based on the current status of previously identified deficiencies in our core financial systems, we do not have reasonable assurance that the objectives of Section 4 of the FMFIA have been achieved, namely the conformance of our fiscal and administrative systems to the General Accounting Office's principles and standards. Customs financial management systems are not currently in compliance with federal financial management systems requirements, applicable federal accounting standards, or the United States Government Standard General Ledger at the transaction level. As a consequence, Customs is also not in compliance with the requirements of FFMIA.

Although Customs is not yet compliant with FMFIA requirements, with the exception of the material weaknesses described in the attachments, I can state compliance with the control objectives of Section 2 of the FMFIA. I can also state that continuity of operations planning in critical areas is adequate to reduce risk to reasonable levels and that our controls are sufficient to minimize any improper or erroneous payments. Based on our annual self-assessments performed under the Federal Information Security Management Act, related acts, and other reviews of our information technology programs and security, I can state compliance with federal information technology standards and requirements, with the exception of the material weak-

Vigilance ★ Service ★ Integrity

nesses described in the attachments. With regard to Customs performance data information, I can state with reasonable assurance that the measures reported as part of our performance plan are reliable and accurate.

Customs was not able to provide assurance that it was compliant with governmentwide systems standards after the inception of the Chief Financial Officers (CFO) Act in 1993, due to several material weaknesses in its systems. However, it did make significant progress in devising solutions for these systems deficiencies, obtaining necessary resources, and moving ahead with corrective action plans. These efforts resulted in the resolution of many weaknesses in our systems. This year Customs is closing one of the four material weaknesses reported at the beginning of the year. We anticipate that a second material weakness can be closed at the end of October 2003 and that a third material weakness can also be closed in the first half of FY 2004. We have made progress this year in addressing our core financial systems material weakness by continuing implementation of Systems Applications and Products (SAP) software which will facilitate many aspects of our financial and administrative systems. However, the ultimate resolution of the core financial weakness also depends on selected elements of Customs commercial and related systems modernization through the Automated Commercial Environment (ACE) project. The ACE is a complex, large-scale project that is expected to continue for several years.

Based on our internal FMFIA reporting process, we do not have any new material weaknesses to report at this time. It is possible that the ongoing audit, currently being performed by KPMG for the Department of Homeland Security (DHS), will have additional findings that normally would be reported in this memorandum. However, any such findings have not yet been made available to us. Below is a brief synopsis of the progress we have made in dealing with the four open material weaknesses Customs had at the beginning of FY 2003.

Drawback controls need to be strengthened.

The major area for improvement in drawback controls involves implementing a better statistical methodology for reviewing the processing of drawback claims so that the results of drawback testing can be statistically projected for analysis. Also, it was considered important to train all drawback program staff in the new procedures for ensuring effective internal controls over the drawback process. Customs Drawback staff has been working with a resident statistician to determine statistically valid sampling procedures and correct size samples for drawback testing. A new sampling methodology for drawback testing was recently proposed by this statistician, and the Drawback staff has briefed the new methodology to KPMG auditors. The KPMG will indicate in the near future whether the methodology is acceptable and meets the intent of last year's audit recommendation. The KPMG is still reviewing the proposal and intends to have their own statistician meet with the Customs statistician to discuss the proposal. Meanwhile, 20 drawback specialists attended Drawback Specialist Training at the Federal Law Enforcement Training Center in late January 2003. This included training in the new procedures being used for drawback. The remaining drawback specialists are to be trained in October 2003. Once an agreement has been reached with the KPMG audit team on an appropriate statistical methodology for drawback testing, it is anticipated that this weakness can be closed after the October 2003 drawback training is completed.

Inability to timely restore critical systems in case of disaster or disruption of business operations.

Since 1994, Customs has reported a weakness in planning and preparing for disaster recovery at our National Data Center. Customs submitted proposals and requests for funding to correct this weakness. In FY 2002, Customs received funding to establish a backup capability by contracting for a Commercial Recovery Facility (CRF). Customs then signed a contract in January 2002 to establish a hot-site facility to resume data processing capabilities within a short period of time after disruption. In the summer and fall of 2002, comprehensive tests were conducted to determine the capability to recover system files and data files within a desired 24-hour period. The system proved capable of recovering files and data except with regard to one particular system, the Automated Targeting System. Also, network connectivity had to be established for all Customs sites, as well as for participating trade partners and other government agencies. In June 2003, tests were conducted to determine if remaining CRF capability problems had been resolved. These tests were observed by staff of the Treasury Office of Inspector General. The observers agreed that remaining issues had been resolved and the desired backup capability had been demonstrated by additional testing.

Information Technology system logical access and software maintenance security controls need improvement.

In its FY 2002 audit work, the KPMG found that network and host-based system configuration vulnerabilities exist, which can potentially be used to compromise Customs system security. Some of these involved password management, but the KPMG identified several other deficiencies in logical access controls over data files, application programs, and computer-related facilities and equipment. Nine specific recommendations were made to correct these deficiencies. We are now working toward a goal of closing this material weakness this calendar year. Seven of the nine recommendations have been closed and further corrective actions are proceeding.

Core financial systems need to be improved and integrated. The systems do not provide complete and accurate information for financial reporting.

Customs reported a material weakness in its core financial system in 1993. Systems were out of date and not suited to accomplish the financial reporting requirements of the CFO Act. The correction of this material weakness involved two separate but interrelated efforts – modernization of commercial and related systems through the ACE and deployment of SAP software. The ACE development was significantly delayed because of difficulties in obtaining an adequate and reliable funding stream. Plans and funding proposals were discussed over a number of years. However, the project was not funded. Beginning in 1997, Customs submitted requests for appropriated funds for systems modernization. Funds were finally received in FY 2001, and funding continued in FY 2002 and FY 2003. A contract was made with a consortium of private sector firms – called the eCustoms Partnership – to proceed with a modernization plan. A central piece of the plan, which would address the core financial weakness, was to create a subsidiary ledger, which would then be interfaced with the general ledger. At this point, we have selected 40 managed accounts to participate in a pilot for the ACE modernization effort. We have deployed an ACE portal for the 40 managed accounts,

and we anticipate final deployment of a customer-based accounts receivable ledger to the 40 accounts and designated brokers by July 31, 2004. The operation of the ledger will then be expanded to a large number of accounts. We are currently developing a revised program plan governing the timing of long term releases for the ACE project. The plan is in final review prior to formal acceptance.

The deployment of SAP software has continued according to program plans. Release 1 of SAP was implemented in April 2002. Release 2 was implemented on October 8, 2003. Release 3 is now scheduled for October 2004. It is anticipated that the deployment of Release 3 of SAP, along with use of the subsidiary ledger (being developed as part of ACE) for a material dollar value of accounts, will be sufficient to reduce the financial core material weakness to a reportable condition.

We are also including a summary sheet on a fifth material weakness originally reported last year, but closed by Customs at the beginning of FY 2003. In its FY 2002 review of Customs, the KPMG reported that controls over the Customs Entry Process were inadequate due to the suspension of the Customs Trade Compliance Measurement Program (CMP) after September 11, 2001. The Trade CMP was reinstated at the beginning of FY 2003 and CBP considers corrective action on this weakness completed at that point. The issue of trade compliance measurement is being reviewed again by KPMG in its FY 2003 DHS audit. We have one other deficiency of note to report. Although we do not view this deficiency as a material weakness, its nature is such that it could be construed as a noncompliance with laws and regulations. The Fiscal Year 2002 Continued Dumping and Subsidy Offset Act (CDSOA) payments were not disbursed within the 60-day time frame mandated by law. Due to programming errors, Customs did not have the information timely required for computing the dollar amounts to be paid out. In addition, the staff member who manages the CDSOA database had been reassigned to critical field work in connection with our Border Security Program. The combination of these events caused Customs not to meet the statutory deadline for the disbursement of funds within 60 days after the end of the fiscal year (November 29, 2002). Customs has since taken action to prevent these problems from recurring.

If you have any questions regarding this matter, please contact me or have a member of your staff contact Ms. Jo Ellen Cohen, Acting Assistant Commissioner, Office of Finance, at (202) 927-0600.

SECTION 1: OPEN MATERIAL WEAKNESSES

Attachment A

AS OF SEPTEMBER 30, 2003

FMFIA Section* (2, 4A, or 4F)	Bureau and Control Number	Title of Material Weakness:	Description of Material Weakness:	Major Milestones	Milestone Dates	
					Original Due Dates	Current Due Dates
2	CBP-02-2	Drawback controls need to be strengthened.	Because Customs Automated Commercial System (ACS) cannot compare entry and export information electronically, Customs relies on a risk-based approach to review drawback claims. However, Customs risk-based selectivity process is not adequate to allow for adequate measurement and statistical projection of the result of the control process.	1. Create a statistically valid methodology for reviewing claims 2. Complete training for drawback specialists	6/30/02 4/30/03	11/30/03 √10/31/03
2	CBP-94-2	Inability to timely restore critical systems in case of disaster or disruption of business operations.	Since 1994, Customs has reported a weakness in planning and preparing for disaster recovery at our National Data Center. Customs submitted proposals and requests for funding to correct this weakness. In FY 2002, Customs received funding to establish a backup capability by contracting for a Commercial Recovery Facility (CRF). In the summer and fall of 2002, comprehensive tests were conducted to determine the capability to recover system files and data files within a desired 24-hour period.	1. Sign contract with CRF Vendor 2. Complete update of the Business Impact Analysis. 3. Complete population of the BIA software tool. 4. Initial mainframe test was successful at the CRF 5. Test conducted at CRF of mid-range systems. 6. Conduct the Network Connectivity test at the CRF 7. Complete integration test at the CRF 8. Complete migration of Customs telecommunications resources. 9. Recover all CBP automated mission critical systems.	12/31/01 12/31/01 1/31/02 6/12-14/02 7/18-20/02 9/21/02 12/31/02 6/30/01 6/16/03	√1/15/02 √1/31/02 √1/31/02 √6/12-14/02 √7/18-20/02 √9/21/02 √11/21/02 √1/31/03 √6/17-19/03
2	CBP-02-3	Weaknesses in IT system logical access and software maintenance security controls.	Network and host-based system configuration vulnerabilities exist that can potentially be used to compromise system security. Improvements needed in password policies and procedures. The effect of a combination of identified vulnerabilities is the potential for unauthorized access to sensitive applications and data.	1. Eliminate any vague language in the existing NDC Z/OS Mainframe Infrastructure Security Design Documents. 2. Resolve vulnerabilities in network and host-based system configurations. 3. Ensure implementation of password policies & procedures. 4. Update policy on unique passwords to ensure mainframe and LAN user IDs are not equivalent. 5. All systems defined via the TRM; all security patches are based on the definition of the specific software via the TRM 6. Validate the necessity & auditability of the cited privileged accounts & resolve as appropriate. 7. Review duplicate user accounts and delete those not justified. 8. Complete user access profile recertification. 9. Require all emergency change requests . adhere to CBP policy	4/30/03 6/30/03 6/30/03 1/17/03 1/31/03 2/27/03 2/27/03 3/31/03 3/31/03	√5/20/03 12/31/03 12/31/03 √1/17/03 √1/31/03 √2/27/03 √2/27/03 √3/11/03 √8/15/03

SECTION 1: OPEN MATERIAL WEAKNESSES

Attachment A

AS OF SEPTEMBER 30, 2003

FMFIA Section* (2, 4A, or 4F)	Bureau and Control Number	Title of Material Weakness:	Description of Material Weakness:	Major Milestones	Milestone Dates	
					Original Due Dates	Current Due Dates
4A	CBP-93-1	Core financial systems need to be improved and integrated. The systems do not provide complete and accurate information for financial reporting.	Customs core financial systems did not provide certain financial information necessary for managing operations. Also, the financial systems did not capture all transactions as they occurred during the year, did not record all transactions properly, and were not fully integrated. Additionally, the systems did not always provide for essential controls with respect to override capabilities. As a result, extensive manual procedures and analyses were required to process certain routine transactions and prepare year-end financial statements.	<ol style="list-style-type: none"> 1. Strengthen ACE software acquisition management. 2. Rigorously analyze alternative approaches to building the ACE. 3. Implemented Release 1 of the software deployment of the SAP/R3 software package. 4. Develop requirements specification set (RSS) for establishing accounts receivable subsidiary ledger. 5. Develop RSS for initial interface of subsidiary ledger to general ledger. 6. Select 40 managed accounts to participate in ACE. 7. Deploy ACE portal for 40 managed accounts. 8. Implement Release 2 of SAP (Procure & Asset Mgmt. & Core Financials to support ACE). 9. Develop revised program plan governing long term ACE releases. 10. Final deployment of customer based accounts receivable subsidiary ledger to 40 accounts & designated brokers. 11. Implement Release 3 (remaining core financials) of the SAP/R3 software package. 	4/7/99 9/30/01 10/1/01 2/12/02 8/9/02 9/19/02 2/28/03 10/1/03 6/30/03 12/03 10/01/04	√4/27/01 √9/28/01 √4/28/02 √3/5/02 √10/11/02 √9/19/02 √6/12/03 √10/8/03 In final mgmt. review 7/31/04 10/01/04

SECTION 2: The List of Material Weaknesses Reduced to Non-Material Status During FY 2003

AS OF SEPTEMBER 30, 2003

FMFIA Section* (2, 4A, or 4F)	Bureau and Control Number	Title of Material Weakness:	Description of Material Weakness:	Validation Process Used/Results Achieved**	Date Closed
2	CBP-02-1	Controls over the entry process.	Due to the events of September 11, 2001, Customs suspended its Trade Compliance Measurement Program in FY 2002. The lack of statistical measurement hindered Customs ability to determine the extent of compliance with laws and regulations and to estimate the revenue gap.	CBP considers this material weakness to have been addressed by the reinstatement of the Trade Compliance Measurement Process. However, no formal concurrence has been issued by the OIG.	10/01/02

*Section 2 = Internal Control Material Weaknesses

Section 4A = Administrative Systems Material Non-conformances

Section 4F = Fiscal Systems Material Non-conformances

**Validation Process Used/Results Achieved: Indicate how you have determined that the desired results were accomplished, thereby eliminating the material weakness conditions.

√ = completed

Fiscal Year 2003 Financial Statements

Customs and Border Protection (Legacy Customs)

Consolidated Balance Sheet

As of September 30, 2003 and 2002

(Dollars in Thousands)

Unaudited

	<u>2003</u>	<u>2002</u>
ASSETS (Note 2)		
Intra-governmental Assets		
Fund balance with Treasury (Note 3)	\$ 4,200,541	\$ 2,933,093
Accounts receivable (Note 5)	26,448	16,570
Receivable due from Treasury – refund and drawback (Note 5)	109,070	566,791
Advances and prepayments	<u>14,967</u>	<u>20,635</u>
Total Intra-governmental Assets	<u>4,351,026</u>	<u>3,537,089</u>
Cash and other monetary instruments (Note 4)	27,341	28,688
Accounts receivable, net (Note 5)	61,105	69,979
Duty and trade related receivables, net (Note 6)	1,148,243	1,171,043
Advances and prepayments	15,365	14,941
Inventory and related property (Note 7)	54,675	59,972
Property, plant and equipment, net (Note 8)	<u>1,001,341</u>	<u>698,858</u>
TOTAL ASSETS	<u><u>\$ 6,659,096</u></u>	<u><u>\$ 5,580,570</u></u>
LIABILITIES (Note 9)		
Intra-governmental Liabilities		
Accounts payable	\$ 64,300	\$ 57,490
Due to the General Fund	1,193,640	1,198,069
Employer benefits and taxes	10,001	7,489
Advances from others	<u>8,793</u>	<u>9,756</u>
Total Intra-governmental Liabilities	<u>1,276,734</u>	<u>1,272,804</u>
Accounts payable	173,020	155,304
Refunds payable (Note 10)	98,384	599,315
Advances from others (Note 10)	1,427,680	330,722
Payroll and benefits (Note 11)	176,507	157,039
Workers' compensation	361,201	275,455
Capital leases and software license agreements (Note 13)	102,054	101,567
Injured domestic industries (Note 14)	247,359	312,000
Other (Note 12)	<u>42,861</u>	<u>20,245</u>
TOTAL LIABILITIES	<u><u>3,905,800</u></u>	<u><u>3,224,451</u></u>
Commitment and contingencies (Note 15)		
NET POSITION		
Unexpended appropriations	1,578,536	1,362,926
Cumulative results of operations	<u>1,174,760</u>	<u>993,193</u>
TOTAL NET POSITION	<u><u>2,753,296</u></u>	<u><u>2,356,119</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 6,659,096</u></u>	<u><u>\$ 5,580,570</u></u>

The accompanying notes are an integral part of these statements.

Customs and Border Protection (Legacy Customs)

Statement of Custodial Activity

For the Years Ended September 30, 2003 and 2002

(Dollars in Thousands)

Unaudited

	<u>2003</u>	<u>2002</u>
SOURCES OF CUSTODIAL REVENUE AND COLLECTIONS		
Revenue Received:		
Duty	\$ 20,386,620	\$ 19,786,805
User fees	786,178	701,946
Excise taxes	2,176,324	2,025,968
Fines and penalties	56,070	57,699
Interest	63,836	15,493
Other	5,409	10,139
Total Revenue Received	<u>23,474,437</u>	<u>22,598,050</u>
Less: Refunds and other payments	<u>(1,225,843)</u>	<u>(1,489,753)</u>
Net Revenue Received	<u>22,248,594</u>	<u>21,108,297</u>
Accrual Adjustment	<u>--</u>	<u>(272,535)</u>
TOTAL CUSTODIAL REVENUE	<u>22,248,594</u>	<u>20,835,762</u>
DISPOSITION OF REVENUE RECEIPTS		
Amounts Transferred:		
Treasury General Fund Accounts	21,951,174	20,920,279
U.S. Department of Agriculture	74,520	70,036
Retained by CBP	56,146	48,975
Other Federal agencies	18,567	17,475
Government of Puerto Rico	28,689	33,635
Government of the U.S. Virgin Islands	1,255	2,405
Non-federal other	118,243	15,492
Accrual adjustment	<u>--</u>	<u>(272,535)</u>
TOTAL DISPOSITIONS OF REVENUE RECEIPTS	<u>22,248,594</u>	<u>20,835,762</u>
NET CUSTODIAL REVENUE ACTIVITY	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of these statements.

Customs and Border Protection (Legacy Customs)

Notes to Financial Statements

Unaudited

1. Summary of Significant Accounting Policies**Reporting Entity**

CBP, with headquarters in Washington, D.C., was created on March 1, 2003, and is a bureau of the U.S. DHS. CBP is the single unified agency in the U.S. whose priority mission is the prevention of terrorists and terrorist weapons from entering the U.S. CBP is also responsible for administering the U.S. Trade Program and U.S. Narcotics Enforcement Program. These responsibilities are met by: (1) enforcing the laws governing the flow of merchandise or commerce across the borders of the United States, (2) assessing and collecting duties, taxes, and fees, on imported and other goods and services, and (3) enforcing drug-related and other laws and regulations of the United States on behalf of Federal agencies and/or in conjunction with various state, local, and other Federal agencies and foreign countries.

Substantially all of the duty, tax, and fee revenues collected by CBP are remitted to various General Fund accounts maintained by Treasury. Treasury further distributes these revenues to other Federal agencies in accordance with various laws and regulations. CBP transfers the remaining revenue (generally less than two percent of revenues collected) directly to other Federal agencies, the Governments of Puerto Rico and the U.S. Virgin Islands, or retains funds as authorized by law or regulations. Refunds of revenues collected from import/export activity are recorded in separate accounts established for this purpose and are funded through permanent indefinite appropriations. These activities reflect the non-entity, or custodial, responsibilities that CBP, as an agency of the Federal Government, has been authorized by law to enforce.

Operating and other costs incurred resulting from the activities described above are funded principally through Congressional appropriations on an annual, multi-year, and no-year basis. Accordingly, operating costs incurred are offset by appropriated funds that are recorded as financing sources or by reimbursable revenue, user fee revenue, or other financing sources. These operational activities are reflected in the entity accounts of CBP.

Basis of Accounting and Presentation

These financial statements consist of the balance sheet and the statement of custodial activity, as prescribed by OMB Bulletin No. 01-09, which provides the statement form and content requirements. While these financial statements have been prepared in accordance with the formats prescribed by OMB, they are different from the financial reports used to monitor and control budgetary resources, which are also prepared from CBP accounting records.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that payment of liabilities other than for contracts can be abrogated by the sovereign entity.

The balance sheet is reported using the accrual basis of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. CBP's non-entity revenue and refunds are reported on the statement of custodial activity using a modified cash basis. With this method, revenue from cash collections are reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

Customs and Border Protection (Legacy Customs)

Notes to Financial Statements

Unaudited

Assets and Liabilities

Intra-governmental assets and liabilities result from activity with other Federal agencies. All other assets and liabilities result from activity with parties outside the Federal government, such as domestic and foreign persons, organizations, or governments.

Fund Balance with Treasury

Entity fund balances with Treasury are the amounts remaining as of fiscal year-end from which CBP is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law. Non-entity fund balance with Treasury represents funds available to pay refunds and drawback claims of duties, taxes and fees, and other non-entity amounts to be distributed to the General Fund and other Federal accounts in a future period.

Cash and Other Monetary Instruments

Entity Cash represents imprest fund balances. Imprest fund balances remaining at September 30, 2003, relate to amounts available to support investigative operation activity. Undeposited collections represent monies to be distributed in a future period. A timing difference occurs when cash is received and applied to a specific revenue type in one period, and the deposit and distribution of funds occurs in a future period. Monetary instruments are held by CBP in lieu of an importer/broker filing a surety bond. Corresponding liabilities are recorded for amounts expected to be allocated in future periods to Federal agencies.

Accounts Receivable

Intra-governmental accounts receivable represent amounts due from Federal agencies. These receivables are expected to be fully collected. A portion of these receivables is based on a calculated estimate. The estimate is based on a ratio developed using historical accounts receivables and undelivered orders and applying the ratio to the undelivered orders at September 30, 2003 and 2002. Accounts receivable from reimbursable services and user fees represent amounts due from non-Federal sources for services performed. These receivables are net of amounts deemed uncollectible which are determined by considering the debtor's current ability to pay, the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. The user-fee receivable is based on a calculated estimate using historical user fee receivables.

Duty and Trade Related Receivables

Accounts receivable consist of duties, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity which have been established as a legally enforceable claim and remain uncollected as of year-end. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. CBP's accounting policy for non-entity receivables is described in more detail in Note 6, Duty and Trade Related Receivables, Net.

Advances and Prepayments

Intra-governmental advances and prepayments consist of amounts paid to Federal agencies prior to CBP's receipt of goods and services. All other advances and prepayments consist of employee travel and salary advances, prepaid rent, advances to grantees, and advances relating to certain investigative activities.

Customs and Border Protection (Legacy Customs)

Notes to Financial Statements

Unaudited

Inventory and Related Property

Inventory consists of aircraft and marine parts and materials to be consumed in CBP's operations. Aircraft parts and materials are recorded at average unit cost, and marine parts and materials are recorded using the First-In-First-Out valuation method. Both methods approximate actual acquisition costs. Disclosures are also made for prohibited, seized, and forfeited property resulting from enforcement activities. Prohibited items, such as counterfeit goods, narcotics, or firearms, are disposed of or destroyed by CBP. An annual analysis of change in CBP seized and forfeited property is disclosed in Note 7, Inventory and Related Property.

Property, Plant and Equipment

Prior to October 1, 1995, CBP capitalized property, plant and equipment with an acquisition value of \$5,000 or greater, and a useful life of 2 years or greater. Beginning October 1, 1995, CBP capitalizes property, plant and equipment with an acquisition value of \$50,000 or greater, and a useful life of 2 years or greater. As of October 1, 2000, CBP implemented Statement of Federal Financial Accounting Standard (SFFAS) No. 10 – Accounting for Internal Use Software. SFFAS No. 10 requires the capitalization of all internal use software, including commercial off-the-shelf (COTS), contractor developed and internally developed software. As a result, CBP began capitalizing costs associated with the development of internal use software. In addition, CBP implemented the SFFAS No. 10 recommendation to apply capital lease accounting concepts to software license fee agreements that give CBP the “right to use” the software. Prior to October 1, 2000, costs relating to the development of internal use software and “right to use” license agreements were expensed. CBP also capitalizes bulk acquisitions of like-kind property, plant, and equipment items that are individually valued under the capitalization threshold but are, in the aggregate, significant to CBP financial position or results of operations.

Expenditures for normal repairs and maintenance are charged to expense as incurred. Expenditures greater than \$50,000 for improving or rebuilding an asset, and that increase an asset's useful life, are capitalized. Prior to October 1, 1995, expenditures greater than \$5,000 for improving or rebuilding an asset, and that increased an asset's useful life, were capitalized.

Depreciation and amortization are computed using the straight line method over the estimated useful lives of the assets ranging from 5 to 20 years for equipment and software, 2 to 30 years for leasehold improvements, and 30 years for buildings and structures. Amortization of capitalized software begins on the date of acquisition if purchased or when the module or component has been successfully tested if contractor or internally developed.

Commercial/Travel Payable

A liability is recorded for an accounts payable accrual from commercial/travel activities. The liability is determined using a calculated estimate. This estimate is based on a ratio developed using historical subsequent disbursements and undelivered orders and applying the ratio to the undelivered orders at the end of the fiscal year.

Awards and Foreign Expenses Payable

A liability is recorded for foreign language awards and expenses incurred by CBP Attaches at American Embassies worldwide. The liability is based on an estimate developed using historical expenses.

Customs and Border Protection (Legacy Customs)

Notes to Financial Statements

Unaudited

Other Non-Entity Items in CBP Custody

CBP has the authority, in accordance with provisions of the Federal Crime Code and Federal Rules of Criminal Procedures, to retain property within its custody for evidentiary purposes. Because this property is not seized under seizure and forfeiture laws, it cannot become property of the U.S. Government and is intended to be returned to the owner at some future date. This evidence is not disclosed in the financial statements or a related note as the amount is not significant, but does represent a fiduciary responsibility of CBP.

Accrued Annual, Sick, and Other Leave and Compensatory Time

Annual leave, compensatory time, and other leave time are accrued when earned. The accrual is presented as a component of the payroll and benefits liability in the balance sheet and is adjusted for changes in compensation rates and reduced for annual leave taken. Sick leave is not accrued when earned, but is expensed when taken.

Pension Costs, Other Retirement Benefits, and Other Post-employment Benefits

Most CBP employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS). CBP contributes 8.51 percent of base pay for regular employees, and 9.01 percent for law enforcement agents. Employees hired after December 31, 1983, are automatically covered by the Federal Employees' Retirement System (FERS) and Social Security. A primary feature of FERS is that it offers a savings plan to which CBP automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, CBP also contributes the employee's matching share for Social Security. For the FERS basic benefit CBP contributes 10.7 percent of base pay for regular employees, and 22.7 percent for law enforcement agents. The pay base for determining CBP contributions to CSRS and FERS for inspectors and canine officers includes regular pay and up to a maximum of \$15,000 in certain overtime earnings for Fiscal Year 2003 and Fiscal Year 2002.

CBP recognizes the full costs of its employees' pension benefits; however, the liability associated with these costs is recognized by the Office of Personnel Management (OPM). As of September 30, 2003 and 2002, contributions of \$212 million and \$193.2 million, respectively, were made to these plans. In addition, CBP recorded an additional expense of \$65.1 million and \$53.1 million, as of September 30, 2003 and 2002, respectively, for employee pension benefit costs in excess of CBP contributions.

Similar to Federal retirement plans, OPM, rather than CBP, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and the Federal Employees Group Life Insurance Program (FEGLI). CBP is required to report the full cost of providing other retirement benefits (ORB) for its retired employees as well as reporting contributions made for active employees. As of September 30, 2003 and 2002, CBP ORB expense for retired employees totaled \$72 million and \$61.7 million, respectively. As of September 30, 2003 and 2002, CBP contributions for active employees participating in the FEHBP and FEGLI programs were \$93.3 million and \$78.2 million, respectively.

An expense and liability for other post-employment benefits (OPEB), which includes all types of benefits to former or inactive (but not retired) employees, their beneficiaries, and covered dependents is also recognized.

Customs and Border Protection (Legacy Customs)

Notes to Financial Statements

Unaudited

Workers' Compensation

A liability is recorded for estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The FECA program is administered by the U.S. Department of Labor (Labor), which initially pays valid claims and subsequently seeks reimbursement from Federal agencies employing the claimants. Reimbursement to Labor on payments made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intra-governmental liability are made available to CBP as part of its annual appropriation from Congress in the year in which the reimbursement takes place.

Additionally, the actuarial liability estimate includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Based on information provided by Labor, DHS allocates the actuarial liability to its bureaus and department offices based on the payment history for the bureaus and department offices. The net present value of estimated payments is not covered by budgetary resources and will require future funding.

Unexpended Appropriations

Unexpended appropriations represent the amount of CBP unexpended appropriated spending authority as of fiscal year-end that is unliquidated or is unobligated and has not lapsed, been rescinded or withdrawn.

Cumulative Results of Operations

Cumulative results of operations primarily represents the excess of user fee revenues over related expenses. It also reflects the net investment in property and equipment, and operating materials and supplies held for use, and transfers in of equipment, materials, and supplies from other Federal agencies without reimbursement. Also, included as a reduction in cumulative results of operations, are liabilities incurred, which will require funding from future appropriations, such as accumulated annual and other leave earned but not taken, accrued workers' compensation, and contingent liabilities.

Statement of Custodial Activity

The significant types of custodial revenues collected and related disbursements are described below:

- Duties: amounts collected on imported goods.
- User fees: amounts designed to maintain United States harbors, and to defray the cost of other miscellaneous service programs.
- Excise taxes: amounts collected on imported distilled spirits, wines and tobacco products, and other miscellaneous taxes collected on behalf of the Federal Government.
- Fines and penalties: amounts collected for violations of laws and regulations.

Customs and Border Protection (Legacy Customs)

Notes to Financial Statements

Unaudited

- Refunds: payments made to importers/exporters is primarily identified when the import entry is liquidated, a process in which CBP makes final determination of duties, taxes, fees and interest owed on the entry and compares it to the estimated amount previously determined by and paid by the importer/broker. Interest is included in the refund generally for the period of time between when the estimated amounts were received from the importer/broker and the time the entry is liquidated. When a refund is identified prior to liquidation, the refund from this remittance is funded from the duty, tax, or fee collection rather than from the Refunds and Drawback Account.
- Drawback: a remittance, in whole or in part, of duties, taxes, or fees. Drawback typically occurs when the imported goods on which duties, taxes, or fees have been previously paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. Depending on the type of claim, the claimant has up to six or eight years from the date of importation to file for drawback.

An accrual adjustment is included to adjust cash collections and refund disbursements with the net increase or decrease of accrued non-entity accounts receivables, net of uncollectible amounts, and refunds payable.

CBP will also take into custody, without risk or expense, merchandise termed “general order property,” which for various reasons can not be legally entered into the U.S. commerce. CBP’s sole responsibility for the general order property is to ensure it does not enter the commerce of the United States. If general order property remains in CBP’s custody for a prescribed period of time, without payment of all estimated duties, storage and other charges, it is considered unclaimed and abandoned and can be sold by CBP at public auction. Auction sales revenue in excess of charges associated with the sale or storage of the item is remitted to the Treasury General Fund. In some cases, CBP incurs charges prior to the sale and funds these costs from entity appropriations. Regulations permit CBP to offset these costs of sale before returning excess amounts to Treasury.

2. Non-Entity Assets

Non-entity assets as of September 30, 2003 and 2002, consist of the following (in thousands):

	2003	2002
Intra-governmental		
Fund balance with Treasury	\$ 1,717,267	\$ 694,688
Accounts Rec. – Refund & Drawback	109,070	566,791
Total Intra-governmental	1,826,337	1,261,479
Cash and other monetary instruments	26,186	27,733
Duty and trade related receivables, net	1,148,243	1,171,043
Advances and prepayments	--	--
Property, plant and equipment	7,433	4,960
Total Non-Entity Assets	3,008,199	2,465,215
Total Entity Assets	3,650,897	3,115,355
Total Assets	\$ 6,659,096	\$ 5,580,570

Customs and Border Protection (Legacy Customs)

Notes to Financial Statements

Unaudited

3. Fund Balance with Treasury

Fund balance with Treasury as of September 30, 2003 and 2002, consists of the following (in thousands):

2003	Entity	Non-Entity	Totals
Appropriated Funds	\$ 1,720,162	\$ 5,743	\$ 1,725,905
Trust Funds	40,481	1,369	41,850
Special Funds	719,206	287,304	1,006,510
Deposit Funds	3,425	1,422,851	1,426,276
Totals	<u>\$ 2,483,274</u>	<u>\$ 1,717,267</u>	<u>\$ 4,200,541</u>
2002	Entity	Non-Entity	Totals
Appropriated Funds	\$ 1,438,620	\$ 41,742	\$ 1,480,362
Trust Funds	54,154	--	54,154
Special Funds	740,967	328,190	1,069,157
Deposit Funds	4,664	324,756	329,420
Totals	<u>\$ 2,238,405</u>	<u>\$ 694,688</u>	<u>\$ 2,933,093</u>

Status of Fund Balance with Treasury as of September 30, 2003 and 2002, consists of the following (in thousands):

2003	Entity	Non-Entity	Totals
Unobligated balance available	\$ 963,158	\$ 1,717,267	\$ 2,680,425
Unobligated balance unavailable	31,080	--	31,080
Obligated balance not yet disbursed	849,396	--	849,396
Restricted unobligated funds	639,640	--	639,640
Totals	<u>\$ 2,483,274</u>	<u>\$ 1,717,267</u>	<u>\$ 4,200,541</u>
2002	Entity	Non-Entity	Totals
Unobligated balance available	\$ 501,738	\$ 694,688	\$ 1,196,426
Unobligated balance unavailable	16,540	--	16,540
Obligated balance not yet disbursed	1,080,487	--	1,080,487
Restricted unobligated funds	639,640	--	639,640
Totals	<u>\$ 2,238,405</u>	<u>\$ 694,688</u>	<u>\$ 2,933,093</u>

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Entity amounts comprising the special fund balances result from CBP authority to assess and collect passenger and conveyance-related user fees, CBP authority to assess and collect fees associated with services performed at certain small airports or other facilities, and CBP authority to retain amounts needed to offset costs associated with collecting duties, taxes, and fees for the Government of Puerto Rico. These special fund balances are restricted by law in their use to offset specific costs incurred by CBP. CBP is required to maintain \$30 million in its User Fees Account. Also, an additional \$640 million of the User Fees Account balance is restricted by law in its use to offset costs incurred by CBP until made available as provided in Appropriation Acts. As of September 30, 2003 and 2002: (1) CBP User Fees Account contained approximately \$705.3 million and \$728.2 million, respectively; (2) CBP's Services at Small Airports account contained approximately \$2 million and \$876 thousand, respectively; and (3) the Refunds, Transfers, and Expenses of Operation of Puerto Rico account contained approximately \$11.8 million and \$11.9 million, respectively.

The entity trust fund balances result from CBP authority to use the proceeds from general order items sold at auction to offset specific costs incurred by CBP relating to their sale, to use available funds in the Salaries and Expense Trust Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

The entity deposit fund balance represents amounts received as an advance that are not accompanied by an order. Once the order is received the deposit fund balance is decreased.

The non-entity appropriated fund balance represents permanent, indefinite appropriations to pay refunds and drawback claims of duties, taxes, or fees. The balance is presented as a non-entity balance because the refund and drawback payments are associated with CBP custodial activity of collecting revenue on behalf of the Federal Government.

The non-entity special fund balance results from CBP authority to disburse monies received in connection with antidumping and countervailing (AD/CV) duty orders and findings to qualifying injured domestic industries.

The non-entity deposit fund balance represents collections for which final disposition has not been completed.

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4. Cash and Other Monetary Instruments

Cash and other monetary instruments as of September 30, 2003 and 2002, consist of the following (in thousands):

2003	Entity	Non-Entity	Totals
Imprest Funds	\$ 592	\$ --	\$ 592
Undeposited Collections	563	10,115	10,678
Monetary Instruments	--	16,071	16,071
Totals	<u>\$ 1,155</u>	<u>\$ 26,186</u>	<u>\$ 27,341</u>
2002	Entity	Non-Entity	Totals
Imprest Funds	\$ 656	\$ --	\$ 656
Undeposited Collections	299	13,953	14,252
Monetary Instruments	--	13,780	13,780
Totals	<u>\$ 955</u>	<u>\$ 27,733</u>	<u>\$ 28,688</u>

Undeposited collection balances represent timing differences between when cash relating to duties, taxes, fees, and other trade related collections are received and when the distribution of funds occurs. Cash can either be distributed to the General Fund, other Federal agencies, other governments, or returned to the importer/broker. The monetary instruments represent instruments importers/brokers provide to CBP in lieu of obtaining surety bonds.

5. Accounts Receivable, Net**Intra-governmental Accounts Receivable**

Accounts receivable due from other Federal agencies, as of September 30, 2003 and 2002 total \$26.4 million and \$16.6 million, respectively, and are considered fully collectible.

The \$109 million and \$566 million receivables due from Treasury, as of September 30, 2003 and 2002, represent amounts to be provided by Treasury to fund accrued liabilities.

Accounts Receivables, Net

Receivables from reimbursable services are recognized for work, or services provided to a private party. By law, collections of these receivables can be credited to the appropriation accounts from which the related costs were paid. As of September 30, 2003 and 2002, reimbursable service receivables total \$3.3 million and \$6.2 million, respectively, and are considered fully collectible.

User fees are collected for inspectional processing of air and sea passengers and loaded railroad cars. Receivables accrue for airline and vessel fees on a quarterly basis and accrue for railroad fees on a monthly basis. Payment is due thirty days subsequent to the end of the quarter for airline and vessel fees, or sixty days subsequent to the end of the month for railroad fees. As of September 30, 2003 and 2002, user fee receivables total \$57.8 million and \$63.7 million, respectively, and are net of uncollectible amounts totaling \$5.9 million and \$7.9 million, respectively.

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6. Duty and Trade Related Receivables, Net

Receivables as of September 30, 2003 and 2002 are as follows (in thousands):

Receivable Category	2003		
	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Duties	\$ 1,020,435	\$ (102,170)	\$ 918,265
Excise Taxes	73,075	(1,307)	71,768
User fees	70,370	(616)	69,754
Fines/penalties	694,293	(621,508)	72,785
Interest	80,983	(72,817)	8,166
Refunds and drawback	36,317	(28,812)	7,505
Totals	<u>\$ 1,975,473</u>	<u>\$ (827,230)</u>	<u>\$ 1,148,243</u>

Receivable Category	2002		
	Gross Receivable	Amounts Uncollectible	Total Net Receivables
Duties	\$ 1,007,504	\$ (89,368)	\$ 918,136
Excise Taxes	59,964	(2,602)	57,362
User fees	68,949	(1,112)	67,837
Fines/penalties	382,588	(312,241)	70,347
Interest	66,361	(59,280)	7,081
Refunds and drawback	50,531	(251)	50,280
Totals	<u>\$ 1,635,897</u>	<u>\$ (464,854)</u>	<u>\$ 1,171,043</u>

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CBP assesses duties, taxes, and fees on goods and merchandise brought into the U.S. from foreign countries. At the time importers bring merchandise into the U.S., they are required to file CBP entry documents. Generally, within 10 working days after CBP releases the merchandise into the U.S. commerce, the importer is to submit an entry document with payment of estimated duties, taxes, and fees. A receivable of \$988 million and \$982 million was recorded for 555,731 entries and 552,328 entries for merchandise released into commerce on or before September 30, 2003 and 2002, respectively, for which payment was not received as of September 30, 2003 and 2002. There were an additional 2,974 entries and 2,364 entries for merchandise released into commerce on or before September 30, 2003 and 2002, respectively, for which a receivable amount could not be determined because the entry summary documentation describing the type, quantity, and value of the merchandise had not been received from the importers. It is CBP policy to track and demand payment of unpaid estimated duties, taxes, and fees receivable amounts by establishing a liquidated damage case which generally results in a fines and penalty type receivable. Of the duty- and trade-related net receivable amounts at September 30, 2003 and 2002, approximately 92 percent and 92 percent, respectively, were collected by the end of the third week in October 2003 and first week in November 2002. In addition, there was an increase in the accounts receivable of \$31 million with an uncollectible estimate of \$27 million related to the supplemental duty bills for antidumping/countervailing duties, which was included in refunds and drawback.

In addition CBP import specialists review selected entry summaries to determine whether importer estimates of duties, taxes, and fees are accurate or whether additional (supplemental) amounts are owed and should be billed. CBP regulations allow the importer 90 days from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by the CBP Office of Regulations and Rulings challenging the assessment of supplemental duties, taxes, and fees. If the protest and application for further review are denied by the Port Director, the protestor has an additional 60 days from the denial date to file for a review of the application by the Commissioner of CBP. Consequently, supplemental accounts receivable balances are only recorded on outstanding claims when the protest period has elapsed or when a protest decision has been rendered in CBP's favor.

The Entry Reconciliation Program, implemented October 1, 1998, allows importers to make entry of merchandise when certain information elements, such as dutiable value, are not fully determined at time of release of goods into the U.S. commerce. The importer files a reconciliation entry up to 15 months after the imported goods enter the U.S. commerce, which finalizes the entry data, and makes the appropriate financial and statistical adjustments. CBP has 3,984 reconciliation entries associated with over 774 thousand entry summaries. Until these reconciliation entries are liquidated, CBP cannot determine whether additional duties or fees are due from the importer.

A fine or penalty is established when a violation of import/export law is discovered. CBP assesses a liquidated damage or penalty for these cases to the maximum extent of the law. After receiving the notice of assessment, the importer or surety has 60 days to either file a petition requesting a review of the assessment or make payment of the assessed amount. If a petition is received and CBP finds there are extenuating circumstances, such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by CBP mitigation guidelines and directives. As of September 30, 2003 and 2002, CBP had 4,483 and 6,418 fines and penalty cases, respectively, recorded as receivables. CBP is also tracking another 21,118 cases, for which a receivable was not established because: (1) the petition period had not expired; or (2) CBP had not reached agreement (relief granted or denied or court settlement) with the importer or surety as to the amount of damages (fines) or penalties owed. For the 21,118 and 21,329 cases still in petition phase as of September 30, 2003 and 2002, respectively, CBP identified approximately \$30 million and \$56 million respectively, as "actual loss of duties."

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7. Inventory and Related Property**Operating Parts and Materials**

Operating parts and materials consist of parts and materials held for future consumption to repair and maintain CBP aircraft and vessels used in enforcement activities.

Operating parts and materials as of September 30, 2003 and 2002, consist of the following (in thousands):

2003	Entity	Non-Entity	Totals
Aircraft	\$ 50,778	\$ --	\$ 50,778
Vessels	3,897	--	3,897
Totals	<u>\$ 54,675</u>	<u>\$ --</u>	<u>\$ 54,675</u>
2002	Entity	Non-Entity	Totals
Aircraft	\$ 55,783	\$ --	\$ 55,783
Vessels	4,189	--	4,189
Totals	<u>\$ 59,972</u>	<u>\$ --</u>	<u>\$ 59,972</u>

Parts and materials acquired without reimbursement and consumed during the fiscal years ended September 30, 2003 and 2002, totaled \$22.9 million and \$33 million, respectively. Included in the September 30, 2003 and 2002 balances are parts and materials transferred to CBP without reimbursement totaling \$17.8 million and \$17.7 million, respectively. When ultimately consumed in CBP operations, an operating expense is recorded.

Seized Property and Currency

Seized property results principally from CBP criminal investigations and passenger/cargo processing. Seized items are not considered assets of CBP and are not reported as assets in CBP financial statements. These items include contraband and counterfeit/prohibited items such as drugs and weapons that have no recorded value. Under the requirements of SFFAS No. 3, Accounting for Inventory and Related Property, forfeited and seized property held by Treasury agencies, including CBP, are disclosed on a consolidated basis in the financial statements of the Treasury Forfeiture Fund. Additionally as required by SFFAS No. 3, CBP, as the seizing agency, is required to account for the seized property until the property is forfeited, returned, or otherwise disposed.

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The following information presents the status of prohibited items seized and forfeited by CBP through the forfeiture process. This information is consolidated with Treasury bureaus and the U.S. Coast Guard and reported on the financial statements of the Treasury Forfeiture Fund. An analysis of change in the forfeited property initially seized by CBP during Fiscal Year 2003 is as follows (dollars in thousands):

Analysis of Change in Material Non-Valued (Prohibited) Seized Property

Category	Balance October			New Seizures			Remissions		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	301	662	--	587,163	1,291,758	--	0	0	--
Cocaine	438	964	--	26,979	59,353	--	0	0	--
Heroin	18	39	--	2,248	4,946	--	0	0	--
Firearms	--	--	5,663	--	--	4,155	--	--	525
Pornography	--	--	347	--	--	284	--	--	3
TOTALS	<u>757</u>	<u>1,665</u>	<u>6,010</u>	<u>616,390</u>	<u>1,356,057</u>	<u>4,439</u>	<u>0</u>	<u>0</u>	<u>528</u>

Analysis of Change in Material Non-Valued (Prohibited) Forfeited Property

Category	Balance October 1			New Forfeitures			Transfers		
	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
Cannabis (marijuana)	55,539	122,186	--	587,116	1,291,655	--	--	--	--
Cocaine	19,424	42,733	--	27,307	60,075	--	31	68	--
Heroin	3,221	7,086	--	2,248	4,945	--	37	82	--
Firearms	--	--	381	--	--	1,542	--	--	527
Pornography	--	--	112	--	--	253	--	--	2
Totals	<u>78,184</u>	<u>172,005</u>	<u>493</u>	<u>616,671</u>	<u>1,356,675</u>	<u>1,795</u>	<u>68</u>	<u>150</u>	<u>529</u>

New Forfeitures			Adjustment			Balance September 30		
Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
587,116	1,291,655	--	(18)	(40)	--	330	725	--
27,307	60,075	--	43	94	--	153	336	--
2,248	4,945	--	3	7	--	21	47	--
--	--	1,542	--	--	6	--	--	7,757
--	--	253	--	--	(198)	--	--	177
<u>616,671</u>	<u>1,356,675</u>	<u>1,795</u>	<u>28</u>	<u>61</u>	<u>(192)</u>	<u>504</u>	<u>1,108</u>	<u>7,934</u>

Destroyed			Adjustments			Balance September 30		
Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity	Weight (kg.)	Weight (lbs.)	Quantity
512,876	1,128,327	--	(16,247)	(35,744)	--	113,532	249,770	--
29,310	64,482	--	(420)	(924)	--	16,970	37,334	--
2,396	5,271	--	(58)	(128)	--	2,978	6,550	--
--	--	5	--	--	(52)	--	--	1,339
--	--	472	--	--	189	--	--	80
<u>544,582</u>	<u>1,198,080</u>	<u>477</u>	<u>(16,725)</u>	<u>(36,796)</u>	<u>137</u>	<u>133,480</u>	<u>293,654</u>	<u>1,419</u>

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8. Property, Plant and Equipment

Property, plant and equipment as of September 30, 2003 and 2002, consists of the following (in thousands):

Categories	2003			
	Useful Life (in years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Aircraft	12 to 20	\$ 156,135	\$ (12,685)	\$ 143,450
ADP Equipment	5	32,657	(5,781)	26,876
Internal Use Software	5	126,586	(12,284)	114,302
Internal Use Software-in-Development	N/A	209,966	--	209,966
Vehicles	6	102,025	(12,941)	89,084
Vessels	5 to 10	8,812	(923)	7,889
Land	N/A	4,434	--	4,434
Structures, Facilities (a)	30	32,549	(912)	31,637
Leasehold Improvements	2 to 30	115,517	(4,307)	111,210
Construction in Progress	N/A	214,672	--	214,672
Assets under Capital Lease	5	704	(548)	156
Office Equipment and Other	5	54,358	(6,693)	47,665
Totals		<u>\$ 1,058,415</u>	<u>\$ (57,074)</u>	<u>\$ 1,001,341</u>

Categories	2002			
	Useful Life (in years)	Acquisition Cost	Accumulated Depreciation/ Amortization	Net Book Value
Aircraft	12 to 20	\$ 410,565	\$ (245,557)	\$ 165,008
ADP Equipment	5	40,167	(30,249)	9,918
Internal Use Software	5	150,649	(47,740)	102,909
Internal Use Software-in-Development	N/A	28,476	--	28,476
Vehicles	6	119,556	(49,559)	69,997
Vessels	5 to 10	13,579	(11,567)	2,012
Land	N/A	4,470	--	4,470
Structures, Facilities (a)	30	49,899	(18,294)	31,605
Leasehold Improvements	2 to 30	80,299	(25,853)	54,446
Construction in Progress	N/A	175,134	--	175,134
Assets Under Capital Lease	5	10,595	(9,640)	955
Office Equipment and Other	5	174,234	(125,266)	48,968
Totals – Entity		1,257,623	(563,725)	693,898
Totals – Non-Entity		10,600	(5,640)	4,960
Totals		<u>\$ 1,268,223</u>	<u>\$ (569,365)</u>	<u>\$ 698,858</u>

(a) Includes four multi-use heritage assets located in Puerto Rico with an acquisition value of \$534 thousand.

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9. Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary or other resources represent amounts owed in excess of available appropriated or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future Congressional appropriations. The September 30, 2003 and 2002, liabilities not covered by budgetary resources consists of the following (in thousands):

	2003	2002
Intragovernmental accounts payable	\$ 56,089	\$ 52,893
Workers' compensation	361,201	275,455
Payroll and benefits	125,373	114,556
Capital leases and commercial software license agreements	102,054	101,567
Other	11,440	5,077
Total Liabilities Not Covered By Budgetary Resources	656,157	549,548
Total Liabilities Covered By Budgetary Resources	3,249,643	2,674,903
Total Liabilities	\$ 3,905,800	\$ 3,224,451

The intragovernmental accounts payable amount is the accrued workers' compensation liability to the U.S. DOL. The workers' compensation amount is the actuarial liability.

10. Refunds Payable & Advances from Others

Refunds payable consists of amounts owed for refunds of duty and other trade related activity and drawback claims. These liabilities are principally funded from the Refunds and Drawback account. The September 30, 2003 and 2002, accrued liability consists of the following (in thousands):

	2003	2002
Refunds	\$ 76,275	\$ 564,177
Drawback claims	22,109	35,138
Totals	\$ 98,384	\$ 599,315

In FY 2002, refunds payable includes a \$36.2 million accrued liability relating to the Trade and Development Act of 2000. This act requires refunds of duties paid on certain wool products to importers over the next three years. An estimated \$211.1 million liability relating to the renewal of the Generalized System Preference (GSP) legislation is included in the refunds payable for FY 2002. This Act requires refunds of amounts collected by CBP for specific trade activity occurring after September 30, 2001. The GSP disbursements were made in FY 2003.

In FY 2003, CBP had no accrued liabilities for the Trade and Development Act of 2000 or the Generalized System Preference legislation.

CBP accrues a liability for refunds and drawback claims approved at year-end, but paid subsequent to year-end. Payments made to importers/exporters are primarily identified when the import entry is liquidated, a process in which CBP makes a final determination of duties, taxes, and fees owed on the entry. Due to non-liquidation of the entries, the amount to be refunded is undetermined. Therefore, a historical calculated average was used to determine a ratio for estimating the receivable and payable to be recorded. Using this average, CBP has estimated \$18.4 million as a payable.

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Advances from Others

The increase in fiscal year 2003 to advances from others is due to \$1,153 million of unliquidated anti-dumping/countervailing duties.

11. Payroll and Benefits

The payroll and benefits liability as of September 30, 2003 and 2002, consists of the following (in thousands):

	2003	2002x
Payroll	\$ 49,954	\$ 41,637
Benefits	1,180	846
Annual and other leave liability	125,373	114,556
Continuation of pay	--	--
Totals	<u>\$ 176,507</u>	<u>\$ 157,039</u>

12. Other Liabilities

Other liabilities as of September 30, 2003 and 2002, consists of the following (in thousands):

	2003	2002
Probable contingencies (Note 15)	\$ 28,149	\$ 8,996
Conveyance, passenger, fees and other	14,712	11,249
Continuation of pay	--	--
Totals	<u>\$ 42,861</u>	<u>\$ 20,245</u>

13. Leases**Operating Leases**

CBP leases various facilities and equipment under leases accounted for as operating leases. The lease expense under these arrangements totaled \$224 million and \$196 million for the years ended September 30, 2003 and 2002, respectively.

The leased items consist of offices, warehouses, vehicles, and other equipment. Much of the office space occupied by CBP is either owned by the Federal Government or is leased by the General Services Administration (GSA) from commercial sources. CBP is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA is made and unless the space occupied is designated as unique space only for CBP operations. However, it is expected that CBP will continue to occupy and lease office space from GSA in future years and that the lease charges will be adjusted annually to reflect operating costs incurred by GSA. Lease amounts paid to GSA during Fiscal Year 2003 and 2002 were \$219 million and \$195 million, respectively.

As of September 30, 2003 and 2002, there are no future minimum lease commitments under non-cancelable operating leases for equipment.

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Capital Leases and Commercial Software License Agreements

CBP has a number of capital lease and software license fee agreements primarily involving mainframe software licenses. The liabilities associated with these capital lease and software license agreements are reflected in the accompanying financial statements based upon the present value of the future minimum lease payments. As of September 30, 2003 and 2002, the aggregate capitalized cost of the agreements still subject to lease is \$107.2 million and \$143.7 million, respectively. For FY 2003 and 2002, the capital lease agreements are included in the total assets acquired under capital lease in the amount of \$7 million and \$10.6 million, respectively. As of September 30, 2003 and 2002, the aggregate cost of the license agreements capitalized is \$106.5 million and 133.1 million, respectively. These agreements are included in the capitalized Software. Certain license agreements are cancelable upon certain funding conditions.

	2003		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Land & Buildings	\$ --	\$ --	\$ --
Machinery & Equipment	107,236	(10,621)	96,615
Totals	<u>\$ 107,236</u>	<u>\$ (10,621)</u>	<u>\$ 96,615</u>

	2002		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Land & Buildings	\$ --	\$ --	\$ --
Machinery & Equipment	143,690	(51,778)	91,912
Totals	<u>\$ 143,690</u>	<u>\$ (51,778)</u>	<u>\$ 91,912</u>

Future minimum lease payments under the capitalized leases and commercial off-the-shelf license agreements and the present value of the minimum lease obligation as of September 30, 2003, are as follows (in thousands):

FY	2003
2004	\$ 21,008
2005	19,157
2006	17,981
2007	17,981
2008	17,981
Beyond 2008	<u>35,962</u>
Total future minimum license	130,070
Less: Imputed interest	<u>28,016</u>
Total net present value of software license agreements	<u>\$ 102,054</u>

Substantially all of the net present value of capital lease obligations and software license agreements is expected to be funded from future sources.

14. Injured Domestic Industries

The Continued Dumping and Subsidy Offset Act of 2000, P.L. 106-387, Title X, enacted in Fiscal Year 2001 calls for CBP to disburse monies received in connection with AD/CV duty orders and findings to qualifying injured domestic industries. During Fiscal Year 2003 and 2002, CBP collected \$247.4 million and \$312 million, respectively, in AD/CV duty and recorded the liability.

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15. Commitments and Contingencies

CBP is party to various administrative proceedings, legal actions, and claims brought by or against it. Any financially unfavorable administrative or court decision will normally be funded from either: (1) CBP appropriation for refunds and drawback for trade litigation issues; (2) various claims and judgement funds maintained by Treasury; or (3) CBP salary and expense appropriation. It is the opinion of CBP management and legal counsel that the ultimate resolution of these proceedings, legal actions, and claims will not materially affect the financial statements.

CBP is involved in various actions incidental to its operations. The probable and reasonably possible liabilities as of September 30, 2003 and 2002, consist of the following (in thousands):

Funded By:	2003		2002	
	Probable	Reasonably Possible	Probable	Reasonably Possible
CBP Appropriations	\$ 9,498	\$ 69,078	\$ 2,769	\$ 46,681
Refund & Drawback Appropriation	16,709	56,602	3,919	57,413
Other Claim/Judgment Funds	1,942	63,643	2,308	57,165
Totals	<u>\$ 28,149</u>	<u>\$ 189,323</u>	<u>\$ 8,996</u>	<u>\$ 161,259</u>

CBP is generally liable to DOD for damage or loss to aircraft on loan to CBP from DOD. As of September 30, 2003 and 2002, CBP had 16 loaned aircraft with an acquisition value of \$94.4 million.

In accordance with Public Law 101-510, CBP is required to automatically cancel obligated and unobligated balances of appropriated funds five years after a fund expires. Obligations that have not been paid at the time an appropriation is canceled may be paid from an unexpired appropriation that is available for the same general purpose. At September 30, 2003, CBP canceled \$4.4 million from Fiscal Year 1998 annual appropriations, of which \$2.7 million was obligated. At September 30, 2002, CBP canceled \$12.2 million from Fiscal Year 1997 annual appropriations, of which \$3.8 million was obligated. For the years ended September 30, 2003 and 2002, CBP paid \$728 thousand and \$63 thousand, respectively, for obligations associated with appropriations that were canceled in prior years. Based on historical activity, CBP estimates obligations related to canceled appropriations that will be paid from future appropriations would not exceed \$1 million in any fiscal year.

CBP was authorized to issue various grants and cooperative agreements totaling \$6.6 million and \$4.3 million through September 30, 2003 and 2002, respectively, of which \$6.6 million and \$4.3 million was obligated. As of September 30, 2003 and 2002, respectively, a total of \$4.2 million and \$3.2 million has been disbursed. The remaining grant and cooperative agreement funds are available for expenditure through May 31, 2005.

CBP estimated future drawback claims and refunds relating to custodial revenue collections received during Fiscal Year 2003 and in prior years, at \$974 million and \$834 million, respectively. As of September 30, 2002, CBP estimated future drawback claims and refunds relating to custodial revenue collections received during Fiscal Year 2002 and in prior years, at \$972 million and \$819 million, respectively.

There are various other trade issues resolved by other Federal agencies, such as the Department of Commerce, which may result in refunds of duties, taxes, and fees from the Refunds and Drawback Account. Until such time as a decision is reached by the other agencies, CBP does not have sufficient information to estimate a contingent liability amount.

REQUIRED SUPPLEMENTARY INFORMATION

A. Petitioned and Protested Schedule

An analysis of the changes in petitioned and protested assessed amounts during Fiscal Years 2003 and 2002 is as follows (in thousands):

2003						
	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	\$ 151,671	\$ 435,242	\$ (60,301)	\$ (64,489)	\$ (193,953)	\$ 268,170
Taxes	472	1,014,416	(22,020)	(991)	(991,343)	534
Fees	626	7,770	(886)	(176)	(6,950)	384
Fines/Penalties	1,151,869	980,581	(428,850)	(68)	(384,839)	1,318,693
Interest	30,080	73,211	(12,463)	7,174	(35,775)	62,227
Totals	<u>\$ 1,334,718</u>	<u>\$ 2,511,220</u>	<u>\$ (524,520)</u>	<u>\$ (58,550)</u>	<u>\$ (1,612,860)</u>	<u>\$ 1,650,008</u>

2002						
	Balance October 1	Additional Assessments	Protest in Favor of Debtor	Net Reduction Administrative Process	Additional Receivable	Balance September 30
Duties	\$ 46,001	\$ 237,739	\$ (46,336)	\$ (21,107)	\$ (64,626)	\$ 151,671
Taxes	219	931,329	(18,234)	(1,403)	(911,439)	472
Fees	542	18,397	(1,172)	(432)	(16,709)	626
Fines/Penalties	2,291,751	928,000	(713,411)	(351)	(1,354,120)	1,151,869
Interest	30,134	58,012	(14,349)	(4,453)	(39,264)	30,080
Totals	<u>\$ 2,368,647</u>	<u>\$ 2,173,477</u>	<u>\$ (793,502)</u>	<u>\$ (27,746)</u>	<u>\$ (2,386,158)</u>	<u>\$ 1,334,718</u>

CBP reviews selected entry documentation to determine whether importer payment estimates of duties, taxes, and fees were accurate or whether additional supplemental amounts are owed and should be billed. CBP regulations allow the importer 90 days from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by the CBP Office of Regulations and Rulings challenging the assessment of

supplemental duties, taxes, and fees. If the protest and application for further review are denied by the Port Director, the protestor has an additional 60 days from the denial date for a review of the application by the Commissioner of CBP. Consequently, CBP recognizes accounts receivables only when the protested period has elapsed or when a protest decision has been rendered in CBP's favor.

Additionally, importers and their sureties also have the option to petition for relief after receipt of CBP notice that a fine or penalty has been assessed when a violation of law or regulation is discovered. The importer or surety has 60 days to file a petition for relief or make payment of the assessed amount. If a petition is received and CBP finds there are extenuating circumstances, such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by CBP mitigation guidelines and directives. Consequently, CBP recognizes accounts receivables only when the petition period has elapsed or when a petition decision has been rendered.

B. Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed, and is delayed until a future period. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieves its useful life. Deferred maintenance on property, plant, and equipment as measured by condition assessment survey, is comprised of (in thousands):

	2003		2002	
	Condition Assessment	Deferred Maintenance	Condition Assessment	Deferred Maintenance
Building and Structures	Fair	\$ 54	Good	\$ 42
Aircraft		--		--
Vehicles	Good	58	Good	34
Vessels		--		--
Totals		<u>\$ 112</u>		<u>\$ 76</u>

OTHER ACCOMPANYING INFORMATION

Entity Receivables

An aging of entity receivables as of September 30, 2003 and 2002, is as follows (in thousands):

2003	Aged Period					Total
	<=90 days	91days-1 year	1-2 years	2-3 years	3+ years	
Reimbursable						
services	\$ 2,076	\$ 648	\$ 115	\$ 118	\$ 299	\$ 3,256
User fees	55,637	290	242	893	6,647	63,709
Gross receivables	57,713	938	357	1,011	6,946	66,965
Less uncollectible amounts	(167)	--	(9)	(178)	(5,506)	(5,860)
Net receivables	<u>\$ 57,546</u>	<u>\$ 938</u>	<u>\$ 348</u>	<u>\$ 833</u>	<u>\$ 1,440</u>	<u>\$ 61,105</u>
2002	Aged Period					Total
	<=90 days	91days-1 year	1-2 years	2-3 years	3+ years	
Reimbursable						
services	\$ --	\$ 3,508	\$ 1,402	\$ 788	\$ 520	\$ 6,218
User fees	56,720	4,459	1,513	2,675	6,334	71,701
Gross receivables	56,720	7,967	2,915	3,463	6,854	77,919
Less uncollectible amounts	(6,511)	(238)	(159)	(238)	(794)	(7,940)
Net receivables	<u>\$ 50,209</u>	<u>\$ 7,729</u>	<u>\$ 2,756</u>	<u>\$ 3,225</u>	<u>\$ 6,060</u>	<u>\$ 69,979</u>

Customs and Border Protection (Legacy Customs)

Notes to Financial Statements

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Non-Entity Receivables

An analysis of the changes in accounts receivable during Fiscal Years 2003 and 2002 is as follows (in thousands):

<u>2003</u>		Receivables				Balance
Receivable	Balance	Recorded				
Category	October 1	During the	Collections	Write-offs	Adjustments	September 30
		Fiscal Year				
Duties	\$ 1,007,504	\$ 21,571,637	\$(21,542,734)	\$ (102)	\$ (15,870)	\$ 1,020,435
Excise Taxes	59,964	2,461,927	(2,449,942)	--	1,126	73,075
Fees	68,949	1,831,854	(1,829,331)	--	(1,102)	70,370
Fines/penalties	382,588	1,797,056	(50,742)	(79,169)	(1,355,440)	694,293
Interest	66,361	56,436	(33,860)	(3,395)	(4,559)	80,983
Refunds/drawback	50,531	41,548	(22,438)	--	(33,324)	36,317
Totals	1,635,897	\$ 27,760,458	\$(25,929,047)	\$ (82,666)	\$ (1,409,169)	1,975,473
Less uncollectible amounts	(464,854)					(827,230)
Net receivables	<u>\$ 1,171,043</u>					<u>\$1,148,243</u>

<u>2002</u>		Receivables				Balance
Receivable	Balance	Recorded				
Category	October 1	During the	Collections	Write-offs	Adjustments	September 30
		Fiscal Year				
Duties	\$ 814,454	\$ 19,815,633	\$(19,643,228)	\$ (2)	\$ 20,647	\$1,007,504
Excise Taxes	40,060	2,199,053	(2,178,730)	--	(419)	59,964
Fees	62,000	1,570,734	(1,563,519)	(526)	260	68,949
Fines/penalties	485,675	9,904,714	(53,028)	(10,043)	(9,944,730)	382,588
Interest	47,295	61,778	(37,936)	(2,315)	(2,461)	66,361
Refunds/drawback	548	50,244	(261)	--	--	50,531
Totals	1,450,032	\$ 33,602,156	\$(23,476,702)	\$ (12,886)	\$ (9,926,703)	1,635,897
Less uncollectible amounts	(549,180)					(464,854)
Net receivables	<u>\$ 900,852</u>					<u>\$ 1,171,043</u>

Customs and Border Protection (Legacy Customs)

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An aging of non-entity Intra-governmental receivables as of September 30, 2003 and 2002 is as follows (in thousands):

	Aged Period					
2003	<=90 days	91days-1 year	1-2 years	2-3 years	3+ years	Total
Duties	\$ 884,908	\$ 39,817	\$ 31,564	\$ 18,476	\$ 45,670	\$ 1,020,435
Excise taxes	71,961	27	162	802	123	73,075
User fees	69,742	103	73	224	228	70,370
Fines/penalties	83,828	327,314	121,204	72,021	89,926	694,293
Interest	163	11,038	6,643	20,301	42,838	80,983
Refunds and drawback	--	18,548	7,080	10,658	31	36,317
Gross receivables	1,110,602	396,847	166,726	122,482	178,816	1,975,473
Less uncollectible amounts	(78,666)	(348,299)	(139,568)	(104,159)	(156,538)	(827,230)
Net receivables	<u>\$ 1,031,936</u>	<u>\$ 48,548</u>	<u>\$ 27,158</u>	<u>\$ 18,323</u>	<u>\$ 22,278</u>	<u>\$ 1,148,243</u>

	Aged Period					
2002	<=90 days	91days-1 year	1-2 years	2-3 years	3+ years	Total
Duties	\$ 894,529	\$ 42,659	\$ 19,850	\$ 13,402	\$ 37,064	\$ 1,007,504
Excise taxes	56,991	745	1,878	327	23	59,964
User fees	67,409	167	219	651	503	68,949
Fines/penalties	78,742	194,894	79,894	12,020	17,038	382,588
Interest	629	7,543	13,273	9,832	35,084	66,361
Refunds and drawback	243	43,879	6,366	--	43	50,531
Gross receivables	1,098,543	289,887	121,480	36,232	89,755	1,635,897
Less uncollectible amounts	(67,882)	(194,844)	(94,382)	(30,222)	(77,524)	(464,854)
Net receivables	<u>\$ 1,030,661</u>	<u>\$ 95,043</u>	<u>\$ 27,098</u>	<u>\$ 6,010</u>	<u>\$ 12,231</u>	<u>\$ 1,171,043</u>

Customs and Border Protection (Legacy Customs)

Notes to Financial Statements

Unaudited

CBP Collections by Category

(Dollars in thousands)

	1999	2000	2001	2002	2003
Duties					
Consumption entries	\$ 18,405,248	\$ 19,857,605	\$ 19,272,396	\$ 19,485,864	\$ 20,331,692
Warehouse withdrawals	136,902	115,097	116,214	132,078	116,803
Mail entries	8,022	5,976	5,355	4,238	3,961
Passenger baggage entries	20,866	21,470	13,430	7,609	4,381
Crew baggage entries	100	100	54	36	25
Military baggage entries	37	34	17	18	6
Informal entries	40,590	45,102	48,472	49,911	49,616
Vessel repair entries	14,660	16,067	14,337	12,494	12,213
Other duties	428,968	494,450	343,574	95,695	82,728
Total Duties	<u>19,055,393</u>	<u>20,555,901</u>	<u>19,813,849</u>	<u>19,787,943</u>	<u>20,601,425</u>
Miscellaneous					
Violations of CBP law	56,089	111,703	66,082	55,789	54,407
Testing, inspecting & grading	25	31	38	35	62
Miscellaneous taxes	68,738	70,419	71,629	71,653	41,186
USDA collections	66,487	68,219	67,580	70,036	74,520
Harbor maintenance fee	551,146	673,324	706,763	673,348	757,882
Fees	2,368	2,916	3,011	4,774	4,258
User fee account	1,208,258	1,277,505	1,264,211	1,233,347	1,322,756
Unclaimed funds	2,175	850	790	1,337	897
Recoveries	27	56	89	30	6
Interest	31,437	38,603	56,080	15,389	12,711
Other CBP receipts	11,908	6,983	9,218	7,694	5,199
Total Miscellaneous	<u>1,998,658</u>	<u>2,250,609</u>	<u>2,245,491</u>	<u>2,133,432</u>	<u>2,273,884</u>
Internal Revenue Taxes	<u>1,351,749</u>	<u>1,541,419</u>	<u>1,694,097</u>	<u>1,913,752</u>	<u>2,092,276</u>
Total Collections	<u>\$ 22,405,800</u>	<u>\$ 24,347,929</u>	<u>\$ 23,753,437</u>	<u>\$ 23,835,127</u>	<u>\$ 24,967,585</u>

Total Collections include both custodial, duty, tax, fee and interest collections, and entity user fee collections recorded by port locations during the period October through September, as follows:

Custodial collections	\$ 22,132,062	\$ 24,049,336	\$ 22,484,774	\$ 22,605,492	\$ 24,681,966
Entity collections	273,738	298,593	1,268,663	1,229,635	285,619
Total Collections	<u>\$ 22,405,800</u>	<u>\$ 24,347,929</u>	<u>\$ 23,753,437</u>	<u>\$ 23,835,127</u>	<u>\$ 24,967,585</u>

Customs and Border Protection (Legacy Customs)

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CBP Collections by Major Processing Port Locations

(Dollars in thousands)

	1999	2000	2001	2002	2003
Boston	\$ 500,925	\$ 511,237	\$ 511,361	\$ 453,907	\$ 426,545
Buffalo-Niagara Falls	155,041	164,036	163,327	150,806	166,428
Ogdensburg	78,847	86,102	86,700	87,991	87,237
Portland, Maine	40,216	43,509	48,808	45,706	49,879
Providence	41,322	39,541	35,928	35,909	60,692
St. Albans	28,913	34,022	27,319	29,001	34,473
Baltimore	503,445	494,200	486,035	491,299	558,733
Philadelphia	525,247	545,958	522,816	539,610	526,844
New York	296,256	462,477	506,854	368,786	293,227
Newark	3,150,573	3,226,830	3,304,465	3,271,144	3,558,418
JFK Airport	1,293,669	1,474,054	1,221,749	1,255,133	1,291,671
Charleston	575,912	629,969	638,621	693,832	807,133
Miami	919,150	1,063,756	842,181	773,030	819,933
San Juan	115,908	105,467	104,714	185,885	99,920
St. Thomas	10,444	11,883	12,448	23,266	10,429
Savannah	659,185	752,055	817,331	835,753	956,698
Tampa	372,144	403,311	394,045	388,254	416,743
Wilmington	331,555	310,507	282,688	265,276	263,549
Norfolk	382,301	443,377	417,217	474,699	553,719
NFC Indianapolis/Washington	351,186	461,158	731,334	632,622	654,492
Mobile	61,324	92,364	80,691	93,955	105,512
New Orleans	761,820	797,544	764,649	776,773	847,966
Dallas/Ft. Worth	274,542	286,031	286,927	291,823	311,226
El Paso	103,953	75,033	75,844	68,121	93,057
Houston	437,079	472,332	485,334	516,549	518,039
Laredo	356,370	351,374	330,949	303,162	301,332
Port Arthur	28,035	29,097	27,255	33,466	32,161
Nogales	106,129	86,925	97,602	84,809	97,051
Los Angeles	4,616,494	5,183,813	5,101,101	5,291,462	5,589,441
San Diego	191,405	230,064	211,547	210,054	226,881
Anchorage	96,252	107,240	94,434	88,657	85,086
Honolulu	41,923	54,610	45,378	37,541	41,255
Portland	289,660	328,474	350,316	353,457	336,487
San Francisco	820,212	867,415	714,645	684,473	707,208
Seattle	713,242	845,930	799,770	783,326	818,627
Chicago	1,258,832	1,340,274	1,245,045	1,266,939	1,261,818
Cleveland	990,196	984,020	996,841	1,015,719	1,001,462
Detroit	430,802	447,904	388,553	396,886	433,890
Duluth	1,393	1,398	7,366	3,283	5,689
Milwaukee	40,967	36,396	33,894	32,876	36,656
Minneapolis	94,402	99,008	105,582	109,366	113,752
Pembina	10,941	11,497	11,743	11,786	12,990
St. Louis	231,650	257,673	265,855	268,592	305,061
Great Falls	96,049	107,613	106,416	103,760	107,655
Total Collections	22,385,911	24,357,478	23,783,678	23,828,744	25,027,065
Net Financial Statement Adjustments (a)	19,889	(9,549)	(30,241)	6,383	(59,480)
Total Revenues Collected	\$ 22,405,800	\$ 24,347,929	\$ 23,753,437	\$ 23,835,127	\$ 24,967,585

(a) Total collections represent collections recorded by the port locations during the fiscal year. Net financial statement adjustments primarily represent adjustments for timing differences for collections received during the fiscal year but not recorded until the next fiscal year.

Acronyms

ACE	Automated Commercial Environment	CMO	Customs Modernization Office
ACH	Automated Clearing House	CMP	Compliance Measurement Programs
ACS	Automated Commercial System	COAC	Commercial Operations Advisory Committee
ACSI	Americas-Counter Smuggling Initiative	COBRA	Consolidated Omnibus Budget Reconciliation Act
AD/CVD	Antidumping/Countervailing Duty	COMPEX	Compliance Measurement Examination
ADP	Automated Data Processing	COTS	Commercial Off-the-Shelf
AES	Automated Export System	CPA	Coalition Provisional Authority
AI	Agricultural Inspection	CRF	Commercial Recovery Facility
AMICC	Air and Marine Interdiction Coordination Center	CSI	Container Security Initiative
AMID	Air and Marine Interdiction Division	CSRS	Civil Service Retirement System
APHIS	Agriculture and Plant Health Inspection Service	CTP	Customs Tuition Program
APIS	Advance Passenger Information System	CTR	Counter-terrorism Response
AQI	Agricultural Quarantine and Inspection	CTRT	Counter-terrorism Response Training
ATD	Applied Technology Division	C-TPAT	Customs Trade Partnership Against Terrorism
ATF	Bureau of Alcohol, Tobacco, and Firearms	DCL	Dedicated Commuter Lanes
ATS	Automated Targeting System	DFO	Director of Field Operations
ATS/P	Automated Targeting System – Passenger	DHS	Department of Homeland Security
BASC	Business Anti-Smuggling Coalition	DOD	Department of Defense
CABINET	Combined Agency Border Intelligence Network	DOJ	Department of Justice
CAOS	Customs Automated Operations System	DSO	Drug Smuggling Organization
CAPPS	Customs Automated Port Profile System	EABM	Enforcement Apprehension Booking Module
CASC	Customs Area Security Center	EAPIS	Electronic Air Passenger Interface System
CBP	Customs and Border Protection	EAR	Export Administration Regulations
CBT	Computer Based Training	EastPac	Eastern Pacific Ocean
CCRA	Canada Customs and Revenue Agency	eCP	Electronic (e) Customs Partnership
CDC	Centers for Disease Control	ECS	Express Consignment Service
CDSOA	Continued Dumping and Subsidy Offset Act	EEO	Equal Employment Opportunity
CEO	Canine Enforcement Officer	EFT	Electronic Funds Transfer
CEU	Continuing Education Units	ENFORCE	Enforcement Case Tracking System
CFO	Chief Financial Officer	FAA	Federal Aviation Administration
CIA	Central Intelligence Agency	FAK	Freights All Kind
CIC	Citizenship and Immigration Canada	FASAB	Federal Accounting Standards Advisory Board
CIP	Carrier Initiative Program	FAS	Field Analysis Specialist
CIS	Citizenship and Immigration Services	FAST	Free and Secure Trade Program
CLI	Customs Leadership Institute	FBI	Federal Bureau of Investigation
CM	Compliance Measurement	FCIP	Federal Career Intern Program
CMF	Criminal Master File	FDA	Food and Drug Administration
CMM	Capability Maturity Model	FECA	Federal Employees' Compensation Act
		FEGLI	Federal Employees' Group Life Insurance
		FEHBP	Federal Employees' Health Benefits Program
		FDA	Federal Drug Administration
		FERS	Federal Employees' Retirement System

FFMIA	Federal Financial Management Improvement Act	ITN	Internal Transaction Number
FIS	Federal Inspection Service	JFK	John Fitzgerald Kennedy
FLETC	Federal Law Enforcement Training Center	JPAU	Joint Passenger Analytical Unit
FMFIA	Federal Managers' Financial Integrity Act	JTTF	Joint Terrorism Task Force
FPS	Federal Protective Service	K-9	Canine (dog)
FY	Fiscal Year	LBVTS	Land Border Vehicle Targeting System
GAAP	General Accepted Accounting Principles	LAT	Local Assistance Training
GAO	General Accounting Office	LEO	Law Enforcement Officer
GMRA	Government Management Reform Act	LER	Labor Employee Relations
GPRA	Government Performance and Results Act	LPR	License Plate Reader
GS	General Schedule (Pay Scale)	MDMA	3,4-Methylenedioxymethamphetamine
GSA	General Services Administration	MEO	Marine Enforcement Officer
GSP	Generalized System Preference	MSPB	Merit Systems Protection Board
HIDTA	High Intensity Drug Trafficking Area	MTD	Major Transactional Discrepancies
HEIQ	Headquarter Intelligence Query	NAFTA	North American Free Trade Agreement
HRM	Human Resources Management	NB	Northern Border
IACET	International Association for Continuing Education and Training	NBSDP	Northern Border Security Deployment Project
IAFIS	Integrated Automated Fingerprint Identification System	NCAP	National Customs Automated Prototype
IA/IP	Information Analysis and Infrastructure Protection	NCE	Canadian National Center of Excellence
IBET	Integrated Border Enforcement Team	NCIC	National Criminal Information Center
ICAD	Integrated Computer Assisted Detection	NCICIII	National Crime Information Center Interstate Identification Index
ICCS	International Crime Control Strategy	NCSD	National Commodity Specialist Division
ICE	Bureau of Immigration and Customs Enforcement	NFC	National Finance Center
ICDE	Interagency Crime and Drug Enforcement	NICB	National Insurance Crime Bureau
IDENT	Automated Biometric Identification System	NII	Non-Intrusive Inspection
INA	Office of International Affairs	NPRM	Notice of Proposed Rulemaking
INS	Immigration and Naturalization Service	NSEERS	National Security Entry Exit Registration System
IPR	Intellectual Property Rights	NTC	National Targeting Center
IPRS	Intellectual Property Rights Search	NTEP	National Training Evaluation Program
IRMCO	Interagency Resources Management Conference	NTP	National Training Plan
IRS	Internal Revenue Service	OCA	Office of Congressional Affairs
ISA	Importer Self-Assessment Program	OIA	Office of Internal Affairs
ISO	International Standards Organization	OAT	Office of Anti-Terrorism
ISIS	Integrated Surveillance Information System	OBS	Office of Border Security
ISSB	Information Systems Security Branch	OCIT	Outbound Currency Interdiction Training
ITAR	International Traffic in Arms Regulations	ODTC	Office of Defense Trade Controls
ITI	International-to-International	OF	Office of Finance
		OFAC	Office of Foreign Assets Control
		OFO	Office of Field Operations
		OIG	Office of Inspector General

OINT	Office of Intelligence	SER	Search Rate
OIT	Office of Information and Technology	SF	Standard Form (Example: SF-50)
OMB	Office of Management and Budget	SFFAS	Statement of Federal Financial Accounting Standard
ONDCP	Office of National Drug Control Policy	SHIMS	Safety and Health Information Management System
OPA	Office of Public Affairs	STC	Strategic Trade Center
OPAC	On-line Payment and Collection System	STL	State and Local
OPEB	Other Post-Employment Benefits	SWB	Southwest Border
OPM	Office of Personnel Management	TCS	Treasury Communications System
ORB	Other Retirement Benefits	TSN	Trade Support Network
ORR	Office of Regulations and Rulings	TECS	Treasury Enforcement Communications System
OST	Office of Strategic Trade	TFF	Treasury Forfeiture Fund
OTD	Office of Training and Development	TPVT	Textile Production Verification Team
OTR	Office of Trade Relations	Treasury	Department of the Treasury
PAL	Process Asset Library	TSN	Trade Support Network
PAU	Passenger Analytical Unit	TWOV	Transit-without-Visa
PD	Position Description	UOF	Use of Force
PDAT	Passenger Data Analysis Team	U.S.	United States
PERT	Passenger Enforcement Rover Training	U.S.C.	United States Code
PIP	Canada's Partners in Protection	USDA	United States Department of Agriculture
PNR	Passenger Name Record	USPS	United States Postal Service
POE	Port of Entry	UTCP	Unified Tactical Communication Program
PRD	Personal Radiation Detectors	VACIS	Vehicle and Cargo Inspection System
PSR	Passenger Service Representative	VIN	Vehicle Identification Number
PTDP	Professional Trainer Development Program	VIS	Vehicle Identification Specialist
PFI	Primary Focus Industry	WMD	Weapons of Mass Destruction
PTI	Priority Trade Issues	WTC	World Trade Center
RAIC	Resident Agent in Charge	WTO	World Trade Organization
RFID	Radio Frequency Identification Card		
RIID	Radiation Isotope Identifier Device		
RPM	Radiation Portal Monitor		
RVS	Remote Video Surveillance		
S&E	Salaries and Expenses		
SAIC	Special Agent-In-Charge		
SARS	Severe Acute Respiratory Syndrome		
SBA	Shared Border Accord		
SBIP	Small Boat Interdiction Program		
SCF	Standard Curriculum Frameworks		
SEACATS	Seized Asset and Case Tracking System		
SeaPAT	Sea Passenger Analysis Training		
SED	Shipper's Export Declaration		
SENTRI	Secure Electronic Network for Travelers Rapid Inspection		



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Questions/Comments:
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